24 August 2018

ASX Announcement (ASX: JKL)

# Notice of Extraordinary General Meeting

The Board of JustKapital Limited ("the Company") is delighted to enclose the Notice of Meeting to obtain shareholder approval for the acquisition of National Health Finance, LLC ("NHF"), to be held on 26 September 2018.

This is a pivotal moment in the Company's development which is expected to deliver significant and ongoing benefit for JustKapital shareholders.

"The NHF acquisition provides an exceptional opportunity for JustKapital to diversify into offshore jurisdictions within its core financing niche. The scale of the merged operations will deliver a stronger platform for future growth." said Diane Jones, Chief Executive Officer.

NHF is a well-established and a well-respected company, fulfilling an important role in the US healthcare system. There is a substantial opportunity for expansion, both into new territories and from organic growth within NHF's existing footprint. With a net receivables book of over US$90m, the cash from which is expected to be collected in the coming years, the acquisition has, to a large degree, been self-financing.

The founder management team has industry leading expertise and has committed to three-year employment agreements. Moreover, through the structure of the revised transaction, there is alignment with our shareholders, including a three-year escrow on the JustKapital shares being paid as part of the acquisition consideration.

We encourage shareholders to read the enclosed material, which includes an Independent Experts Report, that based on conservative assumptions, has recommended the transaction as both Fair and Reasonable.

As well as delivering on expansion targets, we believe that there are material improvements that can be derived from the two businesses working closely together, the details of which we look forward to sharing with you in the years ahead.

We are cognisant of the patience the restructuring and proposed acquisition has demanded of our shareholders and appreciate the patience, loyalty and support throughout the transaction period. All due diligence and negotiations have been undertaken in recognition of the fact that recovering shareholder value is the fundamental role of both management and the Board.

We thank you for your support as we reorientate the business to a much brighter future.

**Authorised by:**

Diane Jones
Chief Executive Officer

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# JUSTKAPITAL LIMITED

ACN 088 749 008

# NOTICE OF EXTRAORDINARY GENERAL MEETING AND EXPLANATORY MEMORANDUM

**IN RELATION TO THE PROPOSED ACQUISITION OF NHF**

**VOTE IN FAVOUR**

Your Board unanimously recommends that you vote in favour of the Resolutions.

**The Independent Expert is of the opinion that the Transaction is fair and reasonable to JustKapital Shareholders.**

**Notice of the Extraordinary General Meeting to be held at**

**Bligh Room**

**DEXUS Place Level 15, Governor Macquarie Tower**

**1 Farrer Place Sydney NSW 2000**

**at 10:00am (Sydney Time) on 26 September 2018**

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR ATTENTION.**

This Notice of Meeting should be read in its entirety.

If you are in doubt as to how you should vote, you should seek advice from your professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact Diane Jones on (+61 2) 9696 0222.

THE FAIRBAIRN PARTNERSHIP

Financial adviser

CORRS CHAMBERS WESTGARTH lawyers

Legal advisor

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# LETTER FROM THE CHAIR

23 August 2018

Dear fellow Shareholders,

Since re-listing in April 2015, JustKapital has been become a specialised financier to the legal industry.

JustKapital Finance has experienced significant growth increasing its account receivable Balance by 167% since this business was purchased in January 2016. This sustained growth inspired the Board to determine it should exit the litigation funding business and the existing portfolio of funded cases will be finalised in an orderly manner.

National Health Finance HoldCo, LLC (**NHF**) is a business similar to JustKapital Finance in that it provides a funding solution to enable personal injury cases to complete. On 12 September 2017 JustKapital announced that it had signed a conditional Securities Purchase Agreement to acquire a 70% interest in NHF for an aggregate purchase price of US$68 million. That transaction was subsequently abandoned. A renegotiation took place over several months. In the end JustKapital agreed to acquire 100% of NHF for US$53 million. The revised Transaction has the capacity to transform JustKapital from an Australian-based disbursements funder to a multi-national financing company.

We have now reshaped into a deal that better suited JustKapital as the proposed transaction that you see before you today (**Transaction**).

**Acquisition of NHF**

Completion of the Transaction is subject to several conditions, including obtaining the approval of Shareholders. This approval will be sought at the Extraordinary Meeting of the Shareholders to be held on Friday, 14 September 2018. To facilitate your decision making the Board commissioned Grant Thornton Corporate Finance Pty Limited as independent expert to report on several aspects of the Transaction. The Independent Expert has concluded that, the Transaction is fair and reasonable to the Non-Associated Shareholders. A copy of the Independent Expert's Report is included in Appendix 4.

Further information about the Transaction, including detailed information about NHF and the potential advantages, disadvantages and the risks to Shareholders relating to the Transaction is set out in the attached Explanatory Memorandum.

The Board believes that the Transaction will be transformative for JustKapital. By combining JustKapital and NHF the Group as it will significantly grow JustKapital's core financing business in the United States of America and is in the best interests of Shareholders.

Your Board believes that the benefits and advantages of the Transaction outweigh the potential disadvantages and risks of the Transaction. The Board unanimously recommends that Shareholders vote in favour of the Transaction.

All of the members of the Board intend to vote the shares in JustKapital (**Shares**) held or controlled by them "FOR" the resolutions at the Extraordinary General Meeting.

**Litigation Restructure**

The Board confirms that it remains committed to exiting JustKapital's litigation portfolio. As announced on 17 July 2018 the Board accepted funding for JustKapital's litigation portfolio from FCCD (Australia) Pty Limited and/or its affiliates or related parties (**Fortress**). As announced, if all funded cases are successfully resolved, JustKapital anticipates retaining around $5 million after repaying all its existing corporate debt (including the Fortress facility).

This "run-off" style solution recognises the existing material commitment to the Portfolio and will provide the best prospect for repaying corporate debt in the short term which will maximise shareholder value.

**What do you need to do?**

I encourage you to read the Explanatory Memorandum in full (including the enclosed Independent Expert's Report) before deciding how to vote. If you are in any doubt as to what to do, I would encourage you to seek advice from independent and appropriately licensed financial, legal and taxation advisers.

The Board strongly encourages all Shareholders to vote either in person or by proxy. A proxy form is enclosed for those Shareholders who will not be able to attend the meeting in person.

On behalf of the Board, I would like to take this opportunity to thank you for your continued support of JustKapital.

Tim Storey

**Chairman**
**JustKapital Limited**

# KEY DATES

| Event | Date |
|---|---|
| Execution of Transaction Documents | 18 July 2018 |
| Notice of Meeting and Explanatory Memorandum mailed to Shareholders | 27 August 2018 |
| Lodgement of Prospectus - Rights Issue | 14 September 2018 |
| JustKapital Extraordinary General Meeting | 26 September 2018 |
| Allotment of new Shares under the Placement | 28 September 2018 |
| Completion of the Transaction and payment of the purchase price in the USA | 28 September 2018 |

Subject to the ASX Listing Rules and the Corporations Act and conditional on satisfaction of the conditions to the Transaction.

All dates in the above timetable are indicative only and are subject to change. The parties may vary any or all of these dates and times and will provide reasonable notice of any such variation. Any changes will be announced by JKL to ASX.

The Prospectus is expected to have updated financial information, otherwise the Notice of Meeting and the Prospectus will effectively have the same information.

# TIME AND PLACE OF MEETING AND HOW TO VOTE

**VENUE**

The Extraordinary General Meeting of the Shareholders to which this Notice of Meeting relates will be held at **10:00am** (AEST) on **Wednesday, 26 September 2018** at:

**Bligh Room**

**DEXUS Place**

**Level 15, Governor Macquarie Tower**

**1 Farrer Place**

**Sydney NSW 2000**

**ASX CODE: JKL**

**YOUR VOTE IS IMPORTANT**

The business of the Extraordinary General Meeting affects your shareholding and your vote is important.

**VOTING IN PERSON**

To vote in person, attend the Extraordinary General Meeting on the date and at the place set out above.

**VOTING BY PROXY**

To vote by proxy, please complete and sign the enclosed Proxy Form and either:

1. deliver the Proxy Form:
   (a) by hand to: Link Market Services Ltd, 1A Homebush Bay Drive, Rhodes NSW 2138;
   (b) by post to: JustKapital Limited, C/- Link Market Services Ltd, Locked Bag A14, Sydney South NSW 1235; or
   (c) by facsimile to (+61 2) 9287 0303; or
2. lodge online at: www.linkmarketservices.com.au, instructions as follows:

   Select 'Investor & Employee Login' and enter JustKapital Limited or the ASX code (ASX:JKL) in the Issuer name field, your Security Reference Number (SRN) or Holder Identification Number (HIN) (which is shown on the front of your proxy form), postcode and security code which is shown on the screen and click 'Login'. Select the 'Voting' tab and then follow the prompts. You will be taken to have signed your Proxy Form if you lodge it in accordance with the instructions given on the website;

so that the Proxy Form is received not later than 48 hours before the commencement of the Extraordinary General Meeting. Proxy Forms received later than this time will be invalid.

# NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is given that an Extraordinary General Meeting of Shareholders of JustKapital Limited (ACN 088 749 008) will be held at **10:00am** (AEST) on **Wednesday, 26 September 2018** at **Bligh Room, DEXUS Place, Level 15, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000**.

The Explanatory Memorandum to this Notice of Meeting provides additional information on matters to be considered at the Extraordinary General Meeting. The Explanatory Memorandum forms part of this Notice of Meeting.

The Board has determined pursuant to Regulation 7.11.37 of the Corporations Regulations that the persons eligible to vote at the Extraordinary General Meeting are those who are registered Shareholders at **7:00pm** (AEST) on **Monday, 24 September 2018**.

Terms and abbreviations used in this Notice of Meeting and the Explanatory Memorandum are defined in the Glossary.

**RESOLUTIONS**

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### RESOLUTION 1 – CHANGE IN NATURE OR SCALE OF ACTIVITIES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *That, for the purposes of ASX Listing Rule 11.1.2 and for all other purposes, approval is given for JustKapital to make a significant change in the nature or scale of its activities, on terms substantially similar to those set out in the accompanying Explanatory Memorandum.*

**Note:** if successful, the Transaction will result in JustKapital changing the scale of its activities. ASX has advised JustKapital that it will be required to re-comply with the requirements of Chapters 1 and 2 of the ASX Listing Rules in accordance with ASX Listing Rule 11.1.3. Please refer to the accompanying Explanatory Memorandum for details.

**Voting Exclusion Statement:** JustKapital will disregard any votes cast in favour of Resolution 1 by or on behalf of:

(a) a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities in JustKapital if the resolution is passed; and

(b) an Associate of those persons.

However, JustKapital need not disregard a vote if:

(c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

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### RESOLUTION 2 – APPROVAL TO ISSUE SHARES TO WATTEL

In connection with the Transaction and other matters to consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *That, subject to the passing of Resolutions 1, 3, 4, 5, 6, 7 and 8 for the purpose of Listing Rule 7.1, item 7 of Section 611 of the Corporations Act and for all other purposes, JustKapital is authorised to issue up to a total of 107,548,701 Shares to David Wattel equal to 23.5% of the total Shares on issue[1], on the terms set out in the Explanatory Memorandum.*

[1] Assumes that i) 93,750,000 new Shares will be issued under the Placement at an issue price of A$0.08, ii) no new Shares will be issued under the Rights Issue and iii) there is no conversion of the A$5 million convertible bond of JustKapital.

**Notes:** for the purposes of item 7 of Section 611 of the Corporations Act an Independent Expert's Report prepared by the Independent Expert (Grant Thornton Corporate Finance Pty Ltd) is included as Appendix 4 to this Explanatory Memorandum. This resolution is also intended to approve any deemed relevant interest that Wattel may acquire in Shares in which JustKapital has a relevant interest by virtue of him holding more than 20% of the Shares in JustKapital. The Independent Expert has concluded that the Transaction and the Escrow Deed are fair and reasonable to the Non-Associated Shareholders.

**Voting Exclusion Statement:** JustKapital will disregard any votes cast in favour of Resolution 2 by or on behalf of:

(a) a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in JustKapital); and

(b) an Associate of those persons.

However, JustKapital need not disregard a vote if:

(c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## RESOLUTION 3 – APPROVAL TO ISSUE SHARES TO SIEGEL

In connection with the Transaction and other matters to consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*That, subject to the passing of Resolutions 1, 2, 4, 5, 6, 7 and 8 for the purpose of Listing Rule 7.1, item 7 of Section 611 of the Corporations Act and for all other purposes, JustKapital is authorised to issue up to a total of 107,548,702 Shares to Mark Siegel equal to 23.5% of the total Shares on issue[2], on the terms set out in the Explanatory Memorandum.*

**Notes:** for the purposes of item 7 of Section 611 of the Corporations Act an Independent Expert's Report is included as Appendix 4 to this Explanatory Memorandum. This resolution is also intended to approve any deemed relevant interest that Siegel may acquire in Shares in which JustKapital has a relevant interest by virtue of him holding more than 20% of the Shares in JustKapital. The Independent Expert has concluded that the Transaction and the Escrow Deed are fair and reasonable to the Non-Associated Shareholders.

**Voting Exclusion Statement:** JustKapital will disregard any votes cast in favour of Resolution 3 by or on behalf of:

(a) a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in JustKapital); and

(b) an Associate of those persons.

However, JustKapital need not disregard a vote if:

(c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

[2] Assumes that i) 93,750,000 new Shares will be issued under the Placement at an issue price of A$0.08, ii) no new Shares will be issued under the Rights Issue and iii) there is no conversion of the A$5 million convertible bond of JustKapital.

## RESOLUTION 4 – APPROVAL OF THE COMPANY, WHSP, WATTEL, SIEGEL AND THEIR RESPECTIVE ASSOCIATES ACQUIRING A RELEVANT INTEREST IN SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *That, subject to Resolutions 1, 2, 3, 5, 6, 7, 8, 9 and 10 being passed, for the purpose of item 7 of Section 611 of the Corporations Act and for all other purposes, approval is given for the Company to enter into the Escrow Deed (as that term is defined in the Explanatory Memorandum) in respect of a number of its own Shares equal to 47.1% of the total Shares on issue[3], as a result of which:*
>
> *(a) JustKapital and its Associates;*
>
> *(b) WHSP, Pitt Capital and their Associates;*
>
> *(c) David Wattel; and*
>
> *(d) Mark Siegel,*
>
> *will each acquire a Relevant Interest in Shares, on the terms and conditions and in the manner set out in the Explanatory Memorandum.*

**Note:** as part of the Transaction, JustKapital and Wattel and Siegel propose to enter into escrow deeds to restrict the sale of the shares allotted to Wattel and Siegel as part of the Transaction. For the purposes of item 7 of Section 611 of the Corporations Act an Independent Expert's Report is included as Appendix 4 to this Explanatory Memorandum. The Independent Expert has concluded that the Transaction and the Escrow Deed are fair and reasonable to the Non-Associated Shareholders.

**Voting Exclusion Statement:** JustKapital will disregard any votes cast on Resolution 4 by:

(a) a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities in JustKapital if the resolution is passed; and

(b) an Associate of those persons.

However, JustKapital need not disregard a vote if:

(c) it is cast by that person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

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## RESOLUTION 5 – APPROVAL TO ISSUE SHARES TO WATTEL ON EXERCISE OF THE WARRANTS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *That, subject to resolutions 1, 2, 3, 4, 6, 7 and 8 being passed, for the purposes of item 7 of Section 611 of the Corporations Act and for all other purposes, approval is given for the issue of 61,431,818 Shares to David Wattel upon exercise of the Warrants equal to 32.6% of the total Shares on issue[4], on the terms set out in the Explanatory Memorandum.*

**Note:** as part of the Transaction JustKapital proposes to issue Warrants to Wattel that will entitle him to additional shares in JustKapital. For the purposes of item 7 of Section 611 of the Corporations Act an Independent Expert's Report is included as Appendix 4 to this Explanatory Memorandum.

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[3] Assumes that i) 93,750,000 new Shares will be issued under the Placement at an issue price of A$0.08, ii) no new Shares will be issued under the Rights Issue and iii) there is no conversion of the A$5 million convertible bond of JustKapital.

[4] Assumes that i) 93,750,000 new Shares will be issued under the Placement at an issue price of A$0.08, ii) no new Shares will be issued under the Rights Issue and iii) there is no conversion of the A$5 million convertible bond of JustKapital.

The Independent Expert has concluded that the Transaction and the allotment of shares upon exercise off the Warrants by Wattel is fair and reasonable to the Non-Associated Shareholders.

**Voting Exclusion Statement:** JustKapital will disregard any votes cast on Resolution 5 by:

(a) a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities in JustKapital if the resolution is passed; and

(b) an Associate of those persons.

However, JustKapital need not disregard a vote if:

(c) it is cast by that person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## RESOLUTION 6 – APPROVAL TO ISSUE SHARES TO SIEGEL ON EXERCISE OF THE WARRANTS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*That, subject to resolutions 1, 2, 3, 4, 5, 7 and 8 being passed, for the purposes of item 7 of Section 611 of the Corporations Act and for all other purposes, approval is given for the issue of 61,431,818 Shares to Mark Siegel upon exercise of the Warrants equal to 32.6% of the total Shares on issue[5], on the terms set out in the Explanatory Memorandum.*

**Note:** as part of the Transaction JustKapital proposes to issue Warrants to Siegel that will entitle him to additional shares in JustKapital. For the purposes of item 7 of Section 611 of the Corporations Act an Independent Expert's Report is included as Appendix 4 to this Explanatory Memorandum.

The Independent Expert has concluded that the Transaction and the allotment of shares upon exercise off the Warrants by Siegel is fair and reasonable to the Non-Associated Shareholders.

**Voting Exclusion Statement:** JustKapital will disregard any votes cast on Resolution 6 by:

(a) a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities in JustKapital if the resolution is passed; and

(b) an Associate of those persons.

However, JustKapital need not disregard a vote if:

(c) it is cast by that person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## RESOLUTION 7 – APPROVAL TO ISSUE WARRANTS TO LENDERS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*That, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the issue of 208,500,000 Warrants to Washington H. Soul Pattinson and Company Limited ACN 000 002 728 (**WHSP**)*

[5] Assumes that i) 93,750,000 new Shares will be issued under the Placement at an issue price of A$0.08, ii) no new Shares will be issued under the Rights Issue and iii) there is no conversion of the A$5 million convertible bond of JustKapital.

*(of which 30,000,000 Warrants comprise WHSP's advisory fee) and 121,380,000 Warrants to other Syndicated Acquisition Lenders on the terms set out in the Explanatory Memorandum.*

**Note:** as part of the Transaction JustKapital proposes to issue Warrants to the Syndicated Acquisition Lenders as part of their role as lenders and advisers to the Transaction.

**Voting Exclusion Statement:** JustKapital will disregard any votes cast in favour of Resolution 7 by or on behalf of:

(a) a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in JustKapital); and

(b) an Associate of those persons.

However, JustKapital need not disregard a vote if:

(c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## RESOLUTION 8 – APPROVAL TO ISSUE SHARES TO WHSP

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*That, subject to Resolutions 1, 2, 3, 4, 5, 6, 7, 9 and 10 being passed, for the purposes of item 7 of Section 611 of the Corporations Act and for all other purposes, approval is given for the issue of up to 302,250,000 Shares to WHSP equal to 45.4% of the total Shares on issue[6], on the terms set out in the Explanatory Memorandum as a result of which WHSP and its Associates will acquire a Relevant Interest and Voting Power in the Shares[7].*

**Note:** as part of the Transaction JustKapital proposes to issue Warrants to WHSP that will entitle them to additional shares in JustKapital. For the purposes of item 7 of Section 611 of the Corporations Act, an Independent Expert's Report is included as Appendix 4 to this Explanatory Memorandum. This resolution is also intended to approve any deemed relevant interest that WHSP and its Associates may acquire in Shares in which JustKapital has a relevant interest by virtue of WHSP and its Associates holding more than 20% of the Shares in JustKapital.

The Independent Expert has concluded that the Transaction and the Escrow Deed and the Company's existing voluntary escrow arrangements to the extent that the exercise of Warrants (in addition to the Shares it and its Associates will hold following completion of the Placement) will indirectly give WHSP and its Associates an interest in the shares the subject of the Escrow Deed and the Company's existing voluntary escrow arrangements are fair and reasonable to the Non-Associated Shareholders.

**Voting Exclusion Statement:** JustKapital will disregard any votes cast on Resolution 8 by WHSP and its Associates.

However, JustKapital need not disregard a vote if:

(a) it is cast by that person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

[6] Assumes that i) 93,750,000 new Shares will be issued under the Placement at an issue price of A$0.08, ii) no new Shares will be issued under the Rights Issue and iii) there is no conversion of the A$5 million convertible bond of JustKapital.

[7] Inclusive of the 208,500,000 Warrants to be issued to WHSP and 93,750,000 Shares issued to WHSP under the Placement.

## RESOLUTION 9 – APPROVAL TO GRANT SECURITY TO WHSP

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *That, subject to Resolutions 1, 2, 3, 4, 5, 6, 7, 8 and 10 being passed, for the purpose of Listing Rule 10.1 and for all other purposes, approval is given to the grant to WHSP of security on the terms set out in the Explanatory Memorandum in connection with the provision of loans to JustKapital and related group entities, on the terms set out in the Explanatory Memorandum.*

**Note:** as part of the Transaction JustKapital proposes to grant security to WHSP as security for loans being made available to WHSP.

The Independent Expert considered the terms of the grant of the security to the Syndicated Acquisition Lenders as outlined in the body of this document and concluded that the Transaction is fair and reasonable to non-associated Shareholders.

**Voting Exclusion Statement:** JustKapital will disregard any votes cast in favour of Resolution 9 by or on behalf of:

(a) a party to the Transaction; and

(b) an Associate of those persons.

However, JustKapital need not disregard a vote if:

(c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## RESOLUTION 10 – APPROVAL OF THE PLACEMENT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *That, subject to the passing of Resolutions 1, 2, 3, 4, 5, 6, 7, 8 and 9 being passed for the purpose of Listing Rule 7.1 and for all other purposes, approval is given to the Placement on the terms set out in the Explanatory Memorandum in connection with the underwritten placement of up to 93,750,000 Shares, on the terms set out in the Explanatory Memorandum.*

**Note:** as part of the Transaction JustKapital proposes to place 93,750,000 Shares to institutional investors in Australia to raise approximately A$7.5 million.

**Voting Exclusion Statement:** JustKapital will disregard any votes cast in favour of Resolution 10 by or on behalf of:

(a) a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in JustKapital); and

(b) an Associate of those persons.

However, JustKapital need not disregard a vote if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### RESOLUTION 11 – ELECTION OF DIRECTOR

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *That Shareholders approve the election of David Wattel as a director of JustKapital.*

| |
|---|
| **Note:** to reflect the commitment of David Wattel to the new business model and his ongoing role with the Company. |

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### RESOLUTION 12 – CHANGE OF NAME TO "LAWFINANCE"

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

> *That for all purposes, Shareholders approve the change of the name of the Company to LawFinance Limited on the terms in the Explanatory Memorandum.*

| |
|---|
| **Note:** to reflect the new business model JustKapital proposes changing its name to LawFinance Limited. |

**Dated**: 23 August 2018

**BY ORDER OF THE BOARD**

**Diane Jones**

Chief Executive Officer

# EXPLANATORY MEMORANDUM

**in connection with the extraordinary meeting of JustKapital shareholders to consider the proposed NHF Transaction.**

## IMPORTANT NOTICE AND DISCLAIMER

### WHAT IS THIS DOCUMENT?

This Explanatory Memorandum provides shareholders in JustKapital Limited ACN 088 749 008 with an explanation of, and information about, a proposal for the acquisition of NHF by JustKapital and the Extraordinary General Meeting of JustKapital.

Please note, the Notice of Meeting is included at page 4.

### PERSONAL INVESTMENT ADVICE

The information contained in this Explanatory Memorandum and recommendation of the Board to vote in favour of the Resolutions is not personal financial product advice. It has been prepared without reference to your particular investment objectives, financial situation, taxation position or needs. It is important that you read this Explanatory Memorandum in its entirety and consider your own objectives, financial situation and needs before making any decision on how to vote on the Resolutions set out in the Notice of Meeting. If you are in any doubt in relation to these matters, you should consult your investment, financial, tax, legal or other professional adviser.

### DISCLAIMER

Neither JustKapital nor any other member of the JustKapital Group gives any guarantee or assurance as to the success, of the Transaction.

Any past performance data provided in this Explanatory Memorandum is not necessarily indicative of future performance. No representation is made that any forward-looking statements, forecasts, estimates, projections or opinions in this Explanatory Memorandum will be achieved or will prove to be correct. Actual results in the future may vary from statements made in this Explanatory Memorandum.

To the maximum extent permitted by law, neither JustKapital nor any of its directors, officers, employees, agents, advisers or intermediaries, nor any other person, accepts any liability for any loss arising from the use of this Explanatory Memorandum or its contents or otherwise arising in connection with it, including, without limitation, any liability from fault or negligence on their part.

The Transaction is subject to known and unknown risks, some of which are beyond the control of JustKapital. JustKapital does not guarantee any particular performance in relation to the NHF business. Shareholders should have regard to (amongst other things) the risk factors outlined in this Notice of Meeting when making a decision on how to vote in relation to the Resolutions.

The information in this Explanatory Memorandum remains subject to change without notice. JustKapital reserves the right to withdraw or vary the timetable for implementing the Transaction without notice.

Any pro forma financial information provided in this Explanatory Memorandum is for illustrative purposes only and is not represented as being indicative of JustKapital's views on the future financial condition and/or performance of JustKapital.

### ASIC AND ASX INVOLVEMENT

A copy of this Explanatory Memorandum has been provided to ASX. Neither ASIC nor ASX nor any of their officers take any responsibility for the contents of this Explanatory Memorandum.

### FINANCIAL

All financial amounts contained in this Explanatory Memorandum are expressed in Australian dollars unless otherwise stated. Any discrepancies between totals and sums and components in tables contained in this Explanatory Memorandum are due to rounding.

This Explanatory Memorandum includes certain pro forma historical financial information. The pro forma historical financial information provided in this Explanatory Memorandum is for illustrative purposes only and is not represented as being indicative of JustKapital's views on its, nor anyone else's, future financial position and/or performance. The pro forma historical financial information has been prepared by JustKapital in accordance with the measurement and recognition principals, but not the disclosure requirements prescribed by Australian Accounting Standards or US accounting standards. The pro forma financial information has been prepared in order to give Shareholders an indication of the scale and size of JustKapital following completion of the proposed transaction.

The accounting policies adopted for the purposes of the pro forma financial information are based on each entity's current accounting policies and income and expense treatments as outlined in their respective financial statements. As such, the financial information of JustKapital (post Transaction) excludes the impact of any accounting policy alignments that may be necessary post Transaction including any need to change accounting policies as a result of changes in scale or changes in treatment.

The financial information should be read in conjunction with the risk factors described in this Explanatory Memorandum.

### DEFINITIONS AND INTERPRETATION

Capitalised terms used in this Explanatory Memorandum have the meaning attributed to them in the Glossary.

### PRIVACY

JustKapital may collect personal information in the process of conducting the Meeting and implementing the Resolutions, if approved.

Such information may include the Shareholder's name, contact details and shareholding, and the name of persons they have appointed to act as a proxy, corporate representative or attorney at the Meeting. The primary purpose of collecting personal information is to assist JustKapital to conduct the Meeting and implement the Resolutions, if approved. Personal information collected will not be used for any other purpose. Personal information of the type described above may be disclosed to print, mail and other service providers and related bodies corporate of JustKapital. Shareholders and persons appointed to act as a proxy, corporate representative or attorney at the Meeting have certain rights to access their personal information that has been collected and may contact JustKapital in the first instance if they wish to access their personal information.

# KEY QUESTIONS

This section answers some key questions that Shareholders may have about the Transaction. It is not intended to address all relevant issues for Shareholders. This section should be read together with all other parts of this Explanatory Memorandum.

| Question | Answer | More information |
|---|---|---|
| **Why have I received this Explanatory Memorandum?** | The information set out in this Explanatory Memorandum will assist Shareholders, to decide how to vote on the Resolutions to approve the Transaction at the Extraordinary General Meeting. | NA |
| **What is the Transaction?** | JustKapital is acquiring the US business, NHF.<br><br>The Transaction involves JustKapital acquiring 100% of NHF from Presidio and from Wattel and Siegel, for an aggregate purchase price of US$53.0 million (c.A$68.8 million[8]), comprising:<br><br>• US$26.5 million in cash.<br><br>• A$7.5m placement fully underwritten by Pitt Capital, a wholly-owned subsidiary of WHSP at A$0.08. Pricing represents a 8% premium to the VWAP;[9]<br><br>• A$42.0 million secured syndication acquisition facility with leading Australian institutions and family offices including WHSP. The issue of 329,880,000 Warrants to the Syndicated Acquisition Lenders (at a ratio of 7.14 Warrants per dollar with a A$0.14 strike price (89% to the VWAP[10]) as an establishment fee;<br><br>• A$11.8 million non-underwritten, 1:1 non-renounceable, pro-rata rights issue at A$0.08 per share; and<br><br>• A vendor loan from Wattel and Siegel of A$17.2 million at 13% interest pa and of a four year duration. Wattel and Siegel issued with 215,097,403 new Shares and 122,863,636 Warrants. | Transaction overview |
| **What is the Exchange Rate?** | The A$:US$ exchange rate of 0.77 has been used throughout this document, unless otherwise stated. The exchange rate at the time this Transaction completes may be higher or lower than this rate. | Glossary |
| **What are the Warrants?** | The Warrants will be issued to various parties in connection with the Transaction. The Warrants have an exercise price of A$0.14 and are exercisable at any time up to 4 years after issue. | Appendix 2 |
| **What is the NHF business?** | NHF purchases a lien from healthcare providers and hospitals over medical receivables associated with personal injury cases. NHF's return is realised upon payment by the at-fault party or the insurance carrier on conclusion of the personal injury litigation either by settlement or judgment. | Overview of NHF |
| **Who are the Vendors?** | The vendors are Wattel and Siegel (who are also the founders of the NHF business (**Founders**)) and Presidio who are a third party early stage investor who is exiting from the business. The Founders will be retained in the business following completion of the sale of NHF.<br><br>None of the vendors are related to JustKapital in any way. | NA |
| **What are the conditions to completion of the Transaction?** | Completion of the Transaction is conditional upon:<br><br>• **Debt:** JustKapital securing debt finance of approximately of A$42 million (the **Syndicated Acquisition Facility**);<br><br>• **Equity**: Completion of the Placement;<br><br>• **No material adverse change:** there not being any material adverse change in the business, operations, properties, prospects, | Conditions of the Transaction |

[8] Based on a A$:US$ exchange rate of 0.77 (**Exchange Rate**) agreed by the parties. In the remainder of this document, unless otherwise stated, the conversion from US$ to A$ is based on the Exchange Rate.

[9] VWAP as at close of trade on 19 July 2018, being the date JustKapital's Shares were voluntarily suspended from official quotation.

[10] VWAP as at close of trade on 19 July 2018, being the date JustKapital's Shares were voluntarily suspended from official quotation.

| | | |
|---|---|---|
| | assets or condition of NHF and no event has occurred or circumstances exist that may result in such material adverse effect;<br>• **Shareholder approval**: JustKapital secures the necessary shareholder approvals (if any) required for the Transaction;<br>• **Lender approval:** NHF obtains approval from Atalaya Special Opportunities Fund IV LP (**Atalaya**) (if necessary). Atalaya funds 90% of the cost of originations of NHF; and<br>• **Key management:** key management including Wattel and Siegel signing employment agreements with NHF. | |
| **What conditions precedent under the Management Agreement have been fulfilled?** | The following conditions precedent have been fulfilled:<br>• the Presidio Agreement has been executed and delivered and the Presidio Agreement has been consummated concurrently with the Management Agreement; and<br>• JustKapital has completed a due diligence review of the NHF business and is satisfied in its sole discretion with such review. | NA |
| **Does the Board recommend the Transaction?** | The Board unanimously recommend that Shareholders vote in favour of the Resolutions. | Notice of Meeting |
| **What has the Independent Expert said?** | The terms of the Transaction have been reviewed by the Independent Expert.<br>The Independent Expert has concluded that the Transaction is fair and reasonable to Shareholders. | Please see Appendix 4 for a full copy of the Independent Expert's Report. |
| **When will the Transaction be completed?** | JKL expects that Completion will occur in the US on or about 28 September 2018. | KEY DATES |
| **What is the rationale for the Transaction and what are the key benefits of the Transaction?** | The Board believes the Transaction will deliver significant value to JustKapital and its shareholders as the enterprise value of the combined Group will be A$201 million[11], with an implied market capitalisation increase by 267% to A$40 million.[12] Further it will provide access to the larger United States market, which has over 325 million people, 13 times the size of the Australian market.<br>Specifically, the Board considers that the Transaction has the capacity to transform JustKapital from an Australian-based disbursements funder to a multi-national financing company.<br>While JustKapital remains committed to exiting the litigation funding business, JustKapital's core business of disbursement funding currently operates, and will continue to operate, in Australia. Following completion of the Transaction, JKL will operate in both Australia and in the US. | Potential advantages of the Transaction. |
| **What are the key risks associated with the Transaction?** | If the Transaction proceeds, Shareholders may be exposed to several risks including, but not limited to:<br>• risks specific to the Transaction such as:<br>o reliance on information provided to JustKapital by the Vendors;<br>o reliance on the Founders;<br>o conditional on obtaining debt and equity finance and JustKapital Shareholder approval;<br>• risks specific to the NHF business in the JustKapital Group, including: | Potential disadvantages and risks of the Transaction. |

[11] Enterprise Value – Being the A$40.2m implied market capitalisation plus A$48.3m JKL Gross Debt less A$1.9m JKL Cash on Hand plus A$71.9m NHF Gross Debt less A$0.5m NHF Cash on Hand plus A$59.2m Acquisition Debt (being the A$42m Syndicated Acquisition Facility and A$17.2 Vendor Loan) less A$16.0m Acquisition Cash (being the A$13.8m Working Capital and A$1.3m Founder Note (tranche 1) and A$0.9m 3rd party notes).

[12] Market Capitalisation – VWAP as at close of trade on 19 July 2018, being the date JustKapital's Shares were voluntarily suspended from official quotation being A$0.074 for 147,933,598 JKL shares currently on issue and assuming an issue price of A$0.08 for 93,750,000 new shares relating to the Placement and an assumption of 56,250,000 shares relating to the Rights Issue and 215,097,403 new Shares will be issued to Wattel and Siegel (in aggregate) as part of the purchase price for the Transaction. This number ignores any dilutive effect from any conversion of the convertible notes issued by JustKapital.

| | | |
|---|---|---|
| | o managing a business that is in a different time zone and jurisdiction to the existing business;<br>o regulatory risk and legislative changes in the USA relating to the health care industry;<br>o integration risk;<br>o ability to originate new receivables;<br>o ability to retain existing customers and respond to competitive challenges; and<br>o obligations under debt and funding arrangements;<br>• Other risks include:<br>o dilutive effect on holdings of existing Shareholders;<br>o accounting policy alignment may affect the proforma financial statements;<br>o currency and interest rate fluctuations;<br>o delay in cash collections on the acquired receivables;<br>o access to new capital to support continued growth; and<br>o new market entrants which may affect the expected margins | |
| **Why were shares in JustKapital suspended?** | The ASX determined that the Transaction will result in a significant change to the nature and scale of the JustKapital's activities, and the Transaction will require the Shareholders' approval under ASX Listing Rule 11.1.2 and will also require JustKapital to re-comply with Chapters 1 and 2 of the Listing Rules in accordance with ASX Listing Rule 11.1.3. | NA |
| **When will the shares in JustKapital recommence trading?** | JustKapital's securities will remain suspended until such time as the ASX is satisfied that there has been sufficient information released to the market regarding the Transaction in order for JustKapital to be reinstated. | NA |
| **What happens if the Transaction is not approved?** | If the Transaction is not approved then the Transaction will not proceed.<br>There are a number of key implications if the Transaction does not proceed, including:<br>(a) lack of scale;<br>(b) restricted liquidity or market depth;<br>(c) lack of geographic diversity; and<br>(d) regulatory risk.<br>The other key implications if the Transaction does not proceed, include:<br>(a) the costs of the Transaction, which are expected to be A$1.5m;<br>(b) the existing business of JustKapital only being the disbursement funding business; and<br>(c) JustKapital only operating in Australia as a sub-scale disbursement funder. | Consequences of the Transaction not proceeding |
| **If I wish to support the Transaction, what should I do?** | If you wish to support the Transaction, you should vote in favour of the Resolutions by one of the following methods:<br>• voting in person at the Extraordinary General Meeting;<br>• completing and returning a personalised Proxy From (enclosed with this Explanatory Memorandum); or | Please see the instructions in at pg 3. |

| | | |
|---|---|---|
| | • appointing an attorney or, if you are a body corporate, a representative to vote for you. | |
| **If I wish to vote against the Transaction, what should I do?** | If you wish to vote against the Transaction, you should vote against the Resolutions by one of the methods set out in the box above. | Please see the instructions in at pg 3. |
| **What if I cannot or do not wish to attend the Extraordinary General Meeting?** | Shareholders who cannot or do not wish to attend the Extraordinary General Meeting may complete a personalised Proxy Form (enclosed with this Explanatory Memorandum) or alternatively appoint, if you are a body corporate, a representative to vote on their behalf. | Please see the instructions in at pg 3. |
| **Further questions** | If you are in doubt as to what you should do, please contact your stockbroker, accountant, lawyer or investment, taxation other professional adviser. | NA |

# NHF ACQUISITION

## Introduction

On 12 September 2017 JustKapital announced that it had signed a conditional Securities Purchase Agreement to acquire a 70% interest in NHF for an aggregate purchase price of US$68 million. That Transaction was subsequently abandoned. A renegotiation took place over several months. In the end JustKapital agreed to acquire 100% of NHF for US$53 million. The revised Transaction has the capacity to transform JustKapital from an Australian-based disbursements funder to a multi-national financing company.

## Transaction overview

The securities in NHF are currently held by Wattel, Siegel and Presidio. In addition, Presidio I, a separate entity affiliated with Presidio II, holds debt with attaching rights to convert that debt into equity in NHF.

JustKapital executed binding transaction documents with Presidio, Wattel and Siegel (**Transaction Documents** – details of which are described in Appendix 3) on 18 July 2018. Under the Transaction Documents and for an aggregate purchase price of US$53.0 million (c. A$68.8 million) JustKapital will acquire a 100% interest in NHF as follows:

(a) JustKapital will acquire all of Presidio's interest in NHF for US$26.5 million in cash;

(b) JustKapital will acquire 100% of the interests owned by Wattel and Siegel in NHF through:

  (i) a vendor loan from Wattel and Siegel of A$17.2 million,

  (ii) 215,097,403 newly issued ordinary Shares in JustKapital to Wattel and Siegel; and

  (iii) 122,863,636 Warrants issued to Wattel and Siegel.

The cash component will be funded by senior secured Syndicated Acquisition Facility of A$42 million. The lenders will be issued 329,880,000 Warrants as an establishment fee. This amount does not include the vendor loan from Wattel and Siegel of A$17.2 million or the 122,863,636 Warrants being issued to the Founders.

There will also be an equity raising through separate A$7.5 million placement that is fully underwritten by Pitt Capital at A$0.08 per share. The underwriting agreement is subject to a number of conditions, including in relation to finalisation of transaction documents, Pitt Capital entering into sub-underwriting arrangements on terms acceptable to it and other customary terms. If the underwriting agreement is terminated then JustKapital may not raise sufficient equity funding for the Group's future capital requirements and the Transaction may not be able to complete.

There will also be a non-underwritten, 1:1 non-renounceable, pro-rata rights issue to raise up to A$11.8 million (at A$0.08 per share) to provide further working capital.

Further information about the effect of the Transaction on JustKapital's financial and capital position is set out in this Explanatory Memorandum (see Sources and Uses of Proceeds (page 23)).

The Transaction will have a transformational impact on the scale and size of JustKapital.

The accounts for NHF for the years ended 31 December 2017 and 2016 can be accessed via JustKapital's website at www.justkapital.com.au/investor-centre/governance/.

The pro forma merged accounts for the group are set out in Appendix 1. As highlighted in those accounts, on completion of the Transaction, it is expected that The Transaction will deliver an Enterprise Value / Receivable book multiple of 1.3 times and on completion of the Transaction JustKapital will own 100% of the capital of NHF.

## Conditions of the Transaction

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

(a) **Debt**: JustKapital securing debt finance of A$42 million (the **Syndicated Acquisition Facility**);

(b) **No material adverse change**: there not being any material adverse change in the business, operations, properties, prospects, assets or condition of NHF and no event has occurred or circumstances exist that may result in such material adverse effect;

(c) **Equity**: JustKapital completing the Placement;

(d) **Shareholder approval**: JustKapital secures the necessary shareholder approvals (if any) required for the Transaction;

(e) **Lender approval**: NHF obtains approval from Atalaya (if necessary) (Atalaya funds 90% of the cost of originations of NHF);

(f) **Key management**: key management including Wattel and Siegel signing three year employment agreements with NHF; and

(g) **Escrow**: Wattel and Siegel enter into escrow deeds to restrict the sale of the Shares allotted to Wattel and Siegel as part of the Transaction.

Further details of the Transaction Documents are set out in Appendix 3.

### Overview of NHF

Established in 1999, the NHF business is an Arizona based medical lien purchasing business with operations in 19 states in the United States. The medical liens purchased generally relate to the not at fault personal injury victims involved in motor vehicle accidents.

NHF purchases a lien or obtains a letter of protection over medical receivables associated with personal injury cases from healthcare providers and hospitals. The return to NHF is realised upon payment by the at-fault party or the insurance carrier on conclusion of the litigation either by settlement or judgment.

NHF provides a funding solution for the victim of a motor vehicle accident by facilitating access to medical care they would likely not otherwise receive. NHF's funding solution enables medical providers to obtain quick liquidity and reduce the administrative burden by managing the medical claims through the litigation process. Medical providers are less vulnerable during the litigation as they have no financial interest in the outcome of the case when they operate through the NHF funding solution. Conversely, medical providers working on a lien basis who do not use the NHF solution are required to wait for a successful conclusion of the legal proceeding before being paid and accordingly may be perceived as conflicted during their cross examination.

As set out in the below table, NHF creates a mutually beneficial situation for all stakeholders in a personal injury case:

| | |
|---|---|
| Medical Providers | • Allows physicians to focus on patients instead of collecting outstanding accounts.<br>• Ensures timely payment to medical providers (c.30 days versus up to 120 days via Private Insurance/Medicare/Medicaid (if it responds)).<br>• A physician's testimony during legal examination can be called into question if payment for services is directly linked to case outcome.<br>• Hesitation to provide care due to perceived risk on recoverability. |
| Attorneys | • Assists attorneys to obtain medical care for clients, to minimise overheads in collating medical records and to access expert witnesses.<br>• The defence attorney can use a "gap in care" from delayed treatment due to lack of financing as leverage to minimise payout of the victim's claim.<br>• Assists with maximising the victim's claim.<br>• Strong referral network with medical providers. |
| Accident Victims | • Provides the victim with a level of medical care they would likely not otherwise receive.<br>• Without financing, victims often delay seeking medical care, intensifying the injury and causing additional complications.<br>• In addition to medical treatment, NHF financing provides the victim with the opportunity to achieve improved compensation under their claim.<br>• NHF enables the patient to access premium care without the need for personal insurance coverage. |

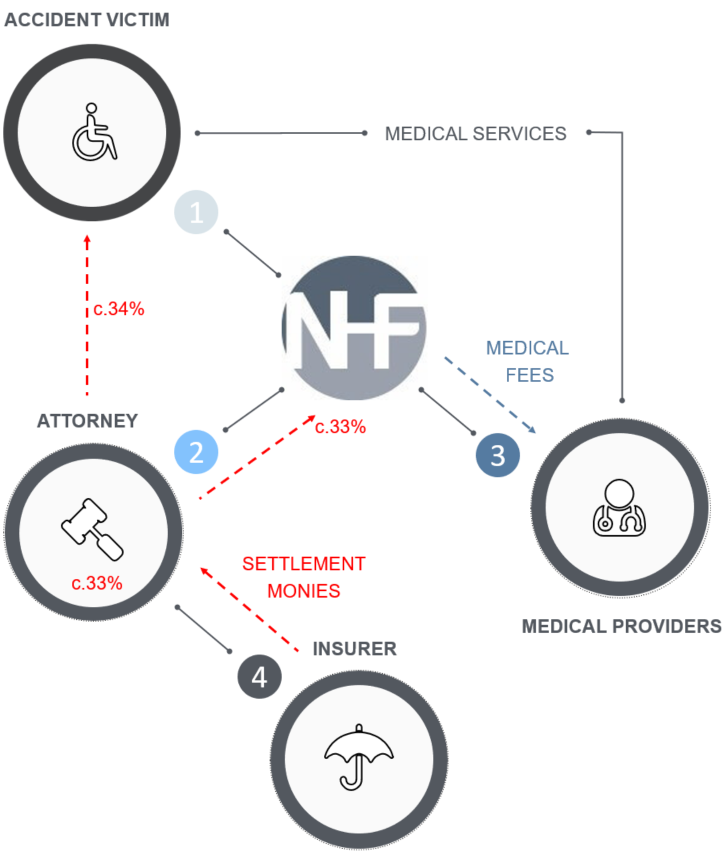
## NHF collects c.33% of the economic benefit from a successful claim outcome

1 ACCIDENT VICTIM
Engages NHF directly or through a Partner Provider to obtain accident related medical care. NHF becomes the central point of contact liaising with the medical facility to schedule care and obtain medical documents for the lawyer to substantiate a successful court settlement. NHF facilitates the victim to seek medical treatment.

2 ATTORNEY
NHF works with the attorney to facilitate the victim's medical treatments. Attorney benefits from 1) NHF managing the victim through the time-consuming treatment phase, 2) reducing overhead costs in collating medical records and 3) accessing expert witnesses.

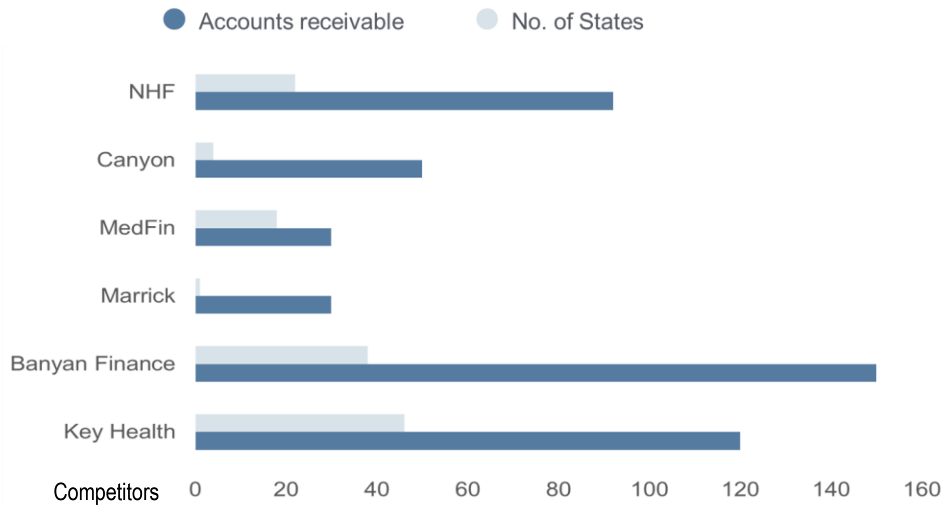
3 MEDICAL PROVIDER
Engaged by NHF directly or through its Partner Providers. Paid by NHF ~30 days after procedure vs. 120+ days for Medicare/Medicaid or other private health insurance claim (if it responds). In return for fast payment and a reduced risk of handling personal injury claims, the medical provider sells its lien rights to the full face value of the bill at a reduced rate (~30% of the total charges). This amount is better than what would be received for the same treatment under any health insurance or Government insurance plan.

4 CLAIM AND SETTLEMENT
Attorney lodges the personal injury claim with the insurer. Successful claim settlement results in NHF, attorney and the victim sharing the proceeds (c.33%/33%/34%). NHF's historical ROIC of settled cases is c.1.77x funds invested and is typically received within 1-3 years of the initial claim.



## Current market in which NHF operates

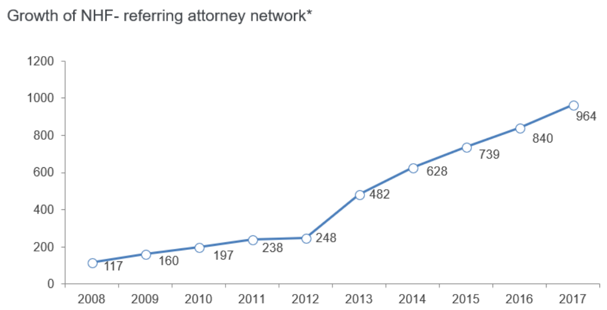
Purchasing of medical liens is a highly fragmented industry still in its infancy in the United States. NHF differentiates itself from its competitors by providing additional administrative support to the attorneys and the doctors, enabling the underlying legal case to be completed more efficiently.

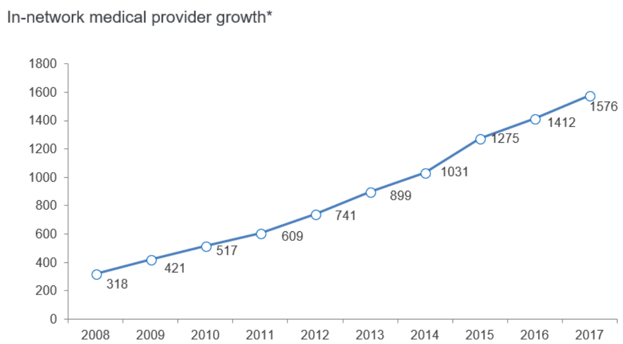



For Accounts Receivables - US$M's. For No. of states - operations in US States.

## Growth potential of NHF

Following the Transaction, JustKapital intends to assist NHF capitalise on growth opportunities. These opportunities include expansion in its current markets (19 states across the US) using the existing attorney and physician network as well as expanding into new markets (5 new states targeted within the next 12 months). Historically, NHF's attorney and physician network has grown as can be seen from the graphs below. With over 1,500 in network medical providers and circa 1,000 referring attorneys, NHF is well positioned to capitalise on these opportunities.




*Source – NHF Management

## Current Management of NHF

The current NHF management team comprises the following people:

| | |
|---|---|
| David Wattel, CEO | • Over 25 years of experience as personal injury attorney<br>• Co-founder of a multi-state based personal injury and property damage law firm |
| Dr. Mark Siegel, Executive Board | • Co-founder of Arizona based hospital<br>• Clinical Practitioner, with over 20 years of experience as accident & injury physician |
| Richard Cruz COO and General Counsel | • Chief Operating Officer; managing underwriting and servicing teams<br>• Licensed attorney in the State of Arizona since 2004; over 10 years of experience as personal injury and civil litigation attorney |
| Sarika Merchant, CFO | • Chief Financial Officer, managing finance and administration<br>• Certified Public Accountant |

The Founders intend to be long term shareholders in JustKapital and their commitment to JustKapital is shown by the fact that they are joining the Board and are entering into employment agreements with NHF and are also entering into a voluntary escrow deed governing ownership of the shares and warrants issued to them by JustKapital.

### Financial information

The Transaction represents a major acceleration of JustKapital's financing business and is a significant move in its international expansion strategy. It is anticipated that the diversification and scale benefits for JustKapital will be substantial.

NHF is a complementary funding business and should provide significant global scale to JustKapital's expanding Australian financing business. JustKapital is currently active in four states in Australia and it is expected that the acquisition of NHF will unlock an additional 19 states across the United States of America.

The Pro forma Historical Income Statement[13] set out below is derived from the Statement of Profit and Loss and Other Comprehensive Income for the year ending 31 December 2017,[14] adjusted to reflect the impact of JKL acquiring NHF as if the two entities had always been part of the same group.[15]

These pro forma accounts show that NHF had a poor result for the 12 months ended 31 December 2017 as it had limited access to capital and was therefore unable to originate new receivables to the level of the previous calendar year. NHF's limited access to capital was as a result of its financing facility being fully utilised and due to an ongoing dispute between the shareholders. These factors inhibited NHF's ability to look for refinancing options or other additional capital.

### Historical and Pro-forma Historical Statements of Profit and Loss

| | JKL Historical Statements of Profit and Loss | | Combined JKL and NHF Finance Pro-forma Statements of Profit and Loss | |
|---|---|---|---|---|
| **USD '000** | **For the year ended 31 December 2017** | **For the year ended 31 December 2016** | **For the year ended 31 December 2017** | **For the year ended 31 December 2016** |
| | | | | |
| Net income | 3,516 | 243 | 12,523 | 19,722 |
| Non-supplier related cost of sales | (253) | (13) | (253) | (13) |
| **Gross margin** | **3,263** | **230** | **12,270** | **19,709** |
| | | | | |
| Other income | 1,138 | 117 | 1,167 | 117 |
| | | | | |
| **Expenses** | | | | |
| Employee, general, administration and other expenses | (5,316) | (3,554) | (10,668) | (8,994) |
| Business purchase expense | (1,981) | (860) | (2) | (860) |
| Finance costs | (3,876) | (1,677) | (9,839) | (5,574) |
| **Loss before income tax (expense)/benefit** | **(6,772)** | **(5,744)** | **(7,072)** | **4,398** |
| | | | | |
| Income tax benefit/(expense) | 1,220 | 2,117 | 1,265 | **(723)** |
| | | | | |
| **Loss after income tax benefit/(expense) attributable to the owners** | **(5,552)** | **(3,627)** | **(5,807)** | **3,675** |
| | | | | |
| Other comprehensive income, net of tax | 6 | (97) | 6 | (97) |
| | | | | |
| **Total comprehensive loss attributable to the owners** | **(5,546)** | **(3,724)** | **(5,801)** | **3,578** |

13 JKL Group Pro forma = a+b+c being the JKL Group pro-forma historical results reflecting the impact of JKL acquiring NHF as if the two entities had always been part of the same group, where:
(a) Statutory historical financial results derived from financial statements of JustKapital for the 12 months ended 31 December 2017.
(b) Adjustments for non-recurring items including costs associated with JKL's due diligence costs of NHF
(c) NHF audited results for the 12 months ended 31 December 2017.

14 The Pro forma Income Statement set out above is derived from the Statement of Profit and Loss and Other Comprehensive Income for the year ending 31 December 2017, adjusted to reflect the impact of JKL acquiring NHF as if the two entities had always been part of the same group. It is presented in an abbreviated form and does not include all of the presentation disclosures, statements or comparative information required by the Australian or United States Accounting Standards. The JKL Pro Forma Income Statement of JustKapital (post transaction) the impact of recent accounting policy changes made by JKL. The average A$/US$ rate used is 0.7692.

15 This section has been prepared to illustrate the pro forma historical financial information of JustKapital post the acquisition of NHF (**JKL Pro Forma Income Statement**). The JKL Pro Forma Income Statement is based on information extracted from the financial statements of JustKapital and NHF and such other supplementary information as was considered necessary. It is presented in an abbreviated form and does not include all of the presentation disclosures, statements or comparative information required by the Australian or United States Accounting Standards. The JKL Pro Forma Income Statement of JustKapital (post transaction) the impact of recent accounting policy changes made by JKL.

A more detailed unaudited pro-forma balance sheet of the Group following completion of the Transaction is set out in Appendix 1.

### NHF Trading Update

The existing NHF management team has a proven track record of executing business objectives and driving profitable growth when sufficient capital is available. Over the last eighteen months, NHF's management believe that NHF's growth rate and performance has been constrained by the business' limited access to capital.

Cash flow from operations has been consistently negative, meaning that cash generated through collections has not been sufficient to cover the cash outflows required to support growth in the business through new originations of receivables.

As a result of these restrictions NHF has recently had lower net income than what it expected to achieve if capital had been available to drive further business. There is however, strong market demand for NHF's product in the US that cannot be realised without further access to capital. The Transaction has the potential to provide NHF with additional equity and a significantly enlarged debt facility to enable profitable growth over the coming years.

## Historical and Pro-forma Historical Statement of Financial Position

| 31 December 2017 USD '000 | Historical Statement of Financial Position[1] | Pro-forma adjustment – debt and capital financing[2] | Pro-forma adjustment – acquisition of NHF[3] | Pro-forma adjustment – transaction costs[4] | Pro-forma Historical Statement of Financial Position |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents[5] | 1,471 | 41,598 | (25,414) | (2,735) | 14,920 |
| Trade and other receivables | 6,988 | - | 29,709 | - | 36,697 |
| Prepayments | 53 | - | - | - | 53 |
| Assets held as held for sale[6] | 11,788 | - | - | - | 11,788 |
| **Total current assets** | **20,300** | **41,598** | **4,295** | **(2,735)** | **63,458** |
| | | | | | |
| **Non-current assets** | | | | | |
| Trade and other receivables | 12,463 | - | 60,318 | - | 72,781 |
| Notes receivable | - | - | 219 | - | 219 |
| Property, plant and equipment, net of accumulated depreciation | 145 | - | 20 | - | 165 |
| Other assets | - | - | 167 | - | 167 |

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1. The information was prepared by translating the financial position as presented in the JKL statement of financial position as at 31 December 2017 from AUD into USD. Items in the Statement of Financial Position were translated at AUD1:USD0.77, being the spot rate applicable as at 31 December 2017.
2. The pro-forma adjustment to reflect the financing of the acquisition of NHF comprises the following as if they occurred as at 31 December 2017:
   - Debt - $32.4 million (AUD42 million – excluding the vendor loan from Wattel and Siegel of AUD17.2 million) of cash raised representing $24.9 million of debt and $7.5 million of associated warrants classified as equity. The cash will be utilised to finance the cash payment to Presidio with the balance being utilised for working capital. Refer to Appendix 2 for further details on warrants.
3. Equity - $9.2 million (AUD12 million) of share capital will be issued (offset by AUD0.6m of equity raising costs) with the proceeds being utilised to finance the repayment of $1.0 million of the first tranche of promissory notes to the Founders and $0.7 million of other subordinated debt as well as and transaction costs incurred as a result of the acquisition. The pro-forma adjustment to reflect the acquisition of NHF comprises the following as if they occurred as at 31 December 2017:
   - Payment of consideration comprising:
     i. $26.5 million cash to Presidio
     ii. $13.25 million of deferred consideration in the form of a loan and associated warrants
     iii. $13.25 million JKL ordinary shares
   - Payment of $1.0 million of notes payable to the Founders and $0.7 million of other subordinated debt immediately following the completion of the Transaction (refer to footnote 9 below for further detail)
   - Acquisition of net assets totaling $37.3 million which includes NHF net assets at 31 December 2017 of $27.9 million as presented in the US GAAP financial statements (which includes $2.7 million of acquired cash) adjusted for:
   - A reduction of $3.7 million to reflect the impact of adjusting the loan receivable to its fair value prepared using actuarial methods
   - The extinguishment of a $12.9 million promissory note payable to Presidio; and
   - The extinguishment of $0.2 million of a note payable to the Founders
   - Goodwill arising on acquisition of $16.4 million
   - Non-controlling interest in the NHF subsidiaries of $0.8 million
   - A calculation of the fair value of the NHF loan receivable using actuarial methods has been undertaken and reflected in the pro-forma adjustment. The fair values of other identifiable assets and liabilities acquired as presented have not been adjusted from the amounts included in the NHF financial statements with the exception of the inclusion of goodwill.
4. Transaction costs of $2.7 million related to the NHF acquisition have been reflected as an adjustment to cash and accumulated losses
5. The impact of the Transaction is a net $13.5 million increase in cash and cash equivalents. The increase comprises:
   - Proceeds of $41.6 million from raising debt and equity
   - Payment of $2.7 million in transaction costs
   - Payment of $26.5 million consideration offset by $2.7 million of cash acquired with NHF
   - Payment of $1.0 million of promissory notes payable to the Founders and $0.7 million of other subordinated debt.
6. Asset held for sale at 31 December 2017 comprise ten cases with a total value of $11.8 million. All ten cases will be reclassified as intangible assets. It was announced to the market on 17 July 2018 that five of these cases will be funded by Fortress. Of the remaining five cases 3 were settled in the first seven month of 2018, one requires no further funding and one will continue to be funded by JKL
7. Goodwill and intangibles includes goodwill on acquisition of NHF and unidentified intangibles. No formal purchase price allocation has been performed to identify and value intangible assets.
8. Trade and other payables includes employee benefits and other liabilities.
9. Borrowings comprises:
   - Current borrowings:
     - JKL Other borrowings - $3.9 million
     - NHF Notes payable - $4.5 million
     - NHF Promissory Notes (subordinated debt) - $6.5 million
   - Non-current borrowings:
     - JKL Loan Facility - $17.8 million
     - JKL Other borrowings - $35.6 million
     - JKL Loan from Founders - $10.6 million
     - NHF Notes payable (subordinated debt) - $2.5 million
     - NHF Other subordinated debt - $1.0 million
     - NHF Revolving line of credit - $38.3 million

   The terms of the acquisition include the immediate repayment of $1.0 million of a $10.0 million promissory note owing to the founders, and three additional payments every six months (being $4.0 million followed by two payments of $2.5 million each) following the completion of the transaction.

| 31 December 2017<br>USD '000 | Historical Statement of Financial Position[1] | Pro-forma adjustment – debt and capital financing[2] | Pro-forma adjustment – acquisition of NHF[3] | Pro-forma adjustment – transaction costs[4] | Pro-forma Historical Statement of Financial Position |
|---|---|---|---|---|---|
| Goodwill and other intangibles[7] | 5,381 | - | 17,006 | - | 22,387 |
| Deferred tax | 4,922 | - | - | - | 4,922 |
| **Total non-current assets** | **22,911** | **-** | **77,730** | **-** | **100,641** |
| | | | | | |
| **Total assets** | **43,211** | **41,598** | **82,025** | **(2,735)** | **164,099** |
| | | | | | |
| **Liabilities** | | | | | |
| | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables[8] | (1,409) | - | (1,921) | - | (3,330) |
| Borrowings[9] | (3,852) | - | (11,000) | - | (14,852) |
| Liabilities associated with assets classified as held for sale | (2,356) | - | - | - | (2,356) |
| **Total current liabilities** | **(7,617)** | **-** | **(12,921)** | **-** | **(20,538)** |
| | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | (28,652) | (24,861) | (52,279) | - | (105,792) |
| **Total non-current liabilities** | **(28,652)** | **(24,861)** | **(52,279)** | **-** | **(105,792)** |
| | | | | | |
| **Total Liabilities** | **(36,269)** | **(24,861)** | **(65,200)** | **-** | **(126,330)** |
| | | | | | |
| **Net assets** | **6,942** | **16,737** | **16,825** | **(2,735)** | **37,769** |
| | | | | | |
| **Total equity** | **6,942** | **16,737** | **16,825** | **(2,735)** | **37,769** |

## Sources and Uses of Proceeds

It is anticipated that the Transaction is to be funded by a combination of the following debt and equity sources:

(a) Rights Issue (assumption) A$4,500,000

(b) Placement (underwritten) A$7,500,000

(c) Issue of new Shares to the Founders 215,097,403 Shares

(d) Vendor loan to JustKapital A$17,200,000

(e) Warrants to Founders 122,863,636 Warrants

(f) Syndicated Acquisition Facility A$42,000,000

(g) Warrants to Syndicated Acquisition Lenders 329,880,000 Warrants

Residual funds raised will be used for JustKapital's working capital requirements, to support the growth of both the NHF and JustKapital businesses and also to fund Transaction costs.

The table below details the proposed sources and uses of funds with respect to the Transaction:

| Sources (A$M) | | Uses (A$M) | |
|---|---|---|---|
| **Rights Issue*** | 4.5 | 34.4 | **Presidio consideration** |
| **Placement** | 7.5 | 1.3 | **Founder note (tranche 1)**** |
| **Syndicated Acquisition Facility** | 42.0 | 0.9 | **3rd party notes** |
| | | 3.6 | **Offer costs** |
| | | 13.8 | **Working capital** |
| **Total** | **54.0** | **54.0** | **Total** |

* Assumes A$4.5m is raised from the Rights Issue.

** First repayment of Founder US$10m promissory note; the remaining repayments are intended to be paid over the next 18 months.

## TRANSACTION BASED COMPARISONS TABLE

| Particulars | Before transaction | Increase/Decrease due to transaction | After transaction | Percentage change due to transaction |
|---|---|---|---|---|
| Method of Calculation | **From latest audited figures** | ***Actual Increase/Decrease due to transaction*** | | |
| Total Consolidated Assets (USD '000) | 43,209 | 120,888 | 164,097 | 280% |
| Total Equity Interests (USD '000) | 6,940 | 30,826 | 37,766 | 444% |
| Total NHF Founder Shares Issued | 0 | 215,097,403 | 215,097,403 | 100% |
| Maximum Warrants Exercised | 0 | 452,743,636 | 452,743,636 | 100% |
| Maximum Placement Shares Issued | 0 | 93,750,000 | 93,750,000 | 100% |
| Maximum Rights Issue Shares Issued | 0 | 147,933,598 | 147,933,598 | 100% |
| **Total Securities on Issue** | **147,933,598** | **909,524,637** | **1,057,458,235** | **615%** |
| **Particulars** | **Before transaction *(From latest audited figures)*** | *Projected Increase/Decrease due to transaction* | **After transaction** | **Percentage change due to transaction** |
| Annual Profit/(Loss) after Tax*** (USD '000) | (5,546)*** | (256)*** | (5,802)*** | 5%*** |
| Annual Revenue*** (USD '000) | 3,516*** | 9,007*** | 12,523*** | 256%*** |
| Annual Expenditure*** (USD '000) | (11,173)*** | (9,336)*** | (20,509)*** | 84% |
| Annual Profit/(Loss) before Tax*** (USD '000) | (5,552)*** | (255)*** | (5,807)*** | 5%*** |

*** Based upon historical proforma financial information rather than forecast due to difficulties in concluding on the appropriate revenue accounting under *AASB9 Financial Instruments* for the acquired disbursement funding business.

### Potential advantages of the Transaction

If approved by Shareholders, the Board considers that the main advantages to the Shareholders of the Transaction include the following matters.

(a) The NHF business is complementary to JustKapital's expanding financing business.

| | | JustKapital | NHF |
|---|---|---|---|
| Overview | | Provider of financing solutions for law firms, including disbursement funding and short-term lending | Finances medical liens for not at fault personal injury victims (generally motor vehicle accidents) in the United States |
| Founded | | New South Wales, Australia, 2015 | Arizona, USA, 1999 |
| Jurisdictions | | 4 states (Australia) | 19 states (USA) |
| Services | Short-term funding to law firms / attorneys | ✓ | x |
| | Coordination of services for law firm | ✓ | ✓ |

(b) It is anticipated that the Transaction will result in significant geographical and service diversification and scale benefits for JustKapital. JustKapital's core business of disbursement funding currently operates, and will continue to operate, in Australia. Consequently, following completion of the Transaction, JustKapital will operate in both Australia and in the US.

(c) The Transaction is expected to accelerate the growth of JustKapital's financing business.

(d) JustKapital will have access to the expertise of Wattel and Siegel, the founders of NHF, under employment arrangements with a term of three years. The interests of Wattel and Siegel will be aligned with that of JustKapital as they will each retain significant stake in JustKapital post completion of the Transaction to be held in escrow until on 31 December 2021.

(e) There are significant barriers to competition in the market in which NHF operates as entry into the market requires considerable legal and regulatory knowledge.

(f) JustKapital's enlarged size following completion of the Transaction may lead to improved access to cheaper funding sources in the future.

### Potential disadvantages and risks of the Transaction

Before voting whether to approve the Transaction, Shareholders should also consider the potential disadvantages and risks associated with the Transaction. A summary of these disadvantages and risks in decreasing order of their impact and likelihood, in the opinion of the Board, is set out below.

#### Transaction specific risks

(a) The Transaction is conditional on a number of matters including JustKapital having obtained both the debt and equity finance that it deems necessary to complete the Transaction and JustKapital Shareholder approval. If these conditions are not satisfied or waived, the Transaction will not complete. There may also be substantial delays to completion in order to obtain some of the conditions.

  (i) JustKapital intends to raise A$7.5 million under the Placement that will be fully underwritten by Pitt Capital at A$0.08 per share. The underwriting agreement is subject to a number of conditions. If the conditions of the underwriting agreement are not met then JustKapital may not raise sufficient equity funding for the Group's future capital requirements and the Transaction may not be able to complete.

  (ii) JustKapital proposes to enter into a conditional agreement under which the Syndicated Acquisition Lenders agree to provide debt funding. Termination of these facilities or failure to satisfy the conditions precedent would mean funds would not be available. In such a case, JustKapital may not have sufficient funding for the Transaction and may be required to seek alternative funding or may not be able to complete the Transaction.

(b) JustKapital intends to raise up to A$11.8 million under the Rights Issue at A$0.08 per share. The Rights Issue is not underwritten. Funds from the rights issue are intended to partially fund the working capital needs of the Company.

(c) The Transaction will result in the issue of approximately 817,841,039[17] new Shares (including under the Warrants if exercised) which will have a material dilutive effect on the holdings of existing Shareholders ie 85% of the enlarged capital of the Company could be new Shares.

(d) The Transaction requires JustKapital to raise a significant amount of debt in order to complete the Transaction. JustKapital needs to ensure that cash collections remain in line with expectations in order to service this debt.

(e) While JustKapital has undertaken due diligence on NHF, that due diligence:

  (i) is limited to the scope of the review conducted (which is based on a reasonable scope for due diligence for a transaction such as this) and it is possible that the due diligence has not revealed issues that will later have a materially adverse impact on the expected benefits to JustKapital; and

  (ii) is in certain respects, reliant on responses provided by NHF management in relation to the business and those responses are limited to the knowledge of management at the time the responses were provided.

(f) Following completion of the Transaction, it is expected that majority of JustKapital's revenues will be generated in the United States. In this way, JustKapital will be exposed to the United States economic and regulatory environment, including the effect of changes to tax laws, changes to local regulations or otherwise which could affect the earnings of JustKapital.

(g) The proforma adjustments to reflect the combined Group have been presented aligning NHF's accounting policies to IFRS. The actual adoption of these accounting policies to the Group could result a material change in the proforma financial statements, as presented.

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[17] Assuming an issue price of A$0.08 for 93,750,000 new shares relating to the Placement and an assumption of 56,250,000 shares relating to the Rights Issue, 452,743,636 new Shares will be issued on exercise of the warrants and 215,097,403 new Shares will be issued to Wattel and Siegel (in aggregate) as part of the purchase price for the Transaction. This number ignores any dilutive effect from any conversion of the convertible notes issued by JustKapital.

(h) No adjustments have been made to the pro-forma results to reflect the impact of the business combination that will impact the profit and loss of the Group post Transaction. Whilst the pro-forma balance sheet does reflect the expected consideration, no formal purchase price allocation exercise has been undertaken to confirm the fair values of identifiable assets and liabilities including identification of any intangibles.

## Business risks

(a) As the industry of purchasing medical liens grows, there is the possibility that regulators will increase their level of scrutiny of the business and impose regulatory changes that may impact on the NHF business.

(b) There is no guarantee as to how existing laws and regulations will be applied in the future. The key laws and regulations governing NHF's business which may impact on JustKapital's business, if they were to change, are summarised as follows:

 (i) the federal Anti-Kickback Statute (42 U.S.C. § 1320a-7b) (and similar applicable state laws) makes it a felony offense for anyone to knowingly and wilfully offer, pay, solicit or receive remuneration if one purpose of the act is to induce patient referrals or the purchase, order or the arranging for or recommending the purchase or order of items or services, for which payment may be made in whole or in part by any federal or state healthcare program. Payments or inducements offered directly to patients, such as coupons, discounts, fee waivers and giveaways are also prohibited;

 (ii) the Federal Stark Law (42 U.S.C. § 1395nn) prohibits physicians from referring Medicare patients for designated health services to any entity with which the physicians or an immediate family member of the physician has an interest or financial relationship, unless an exception applies. Federal Stark Law also prohibits the designated health services entity from submitting claims to Medicare for those services resulting from a prohibited referral;

 (iii) the Health Insurance Portability and Accountability Act of 1996 (Pub. L. No. 104-191), the Health Information Technology for Economic and Clinical Health Act (Pub. L. No. 111-5), and their implementing regulations set forth at 45 C.F.R. Part 160, 162 and 164 as amended are the mandated federal privacy regulation for medical information. As a general rule, protected health information must be kept confidential and cannot be used or disclosed without a person's authorisation; and

 (iv) other laws and regulations including consumer protection and usury laws, insurance laws and laws regulating security interests.

(c) The United States health care industry is subject to change. There is a risk that any change could affect NHF's business and financial performance.

(d) New competitors may enter the market place in which NHF operates and affect NHF's financial performance. New or increased competition has the potential to impact NHF's relationships with Partner Providers which may in turn reduce the funding opportunities available to NHF.

(e) While NHF currently has safeguards in place, there is the possibility that NHF could be exposed to potential personal injury fraud.

(f) NHF is heavily reliant on debt financing for the purchase of medical liens. The ability of JustKapital to continue to have access to funding for future activities is dependent on a number of factors including general economic, political, capital and credit market conditions. This could adversely affect its ability to operate its business or refinance its debt.

(g) The funding businesses operated by both JustKapital and NHF respectively relies on cash collections and access to funding to grow. Both JustKapital and NHF businesses have extended average collection periods (longer than 12 months) which results in a greater reliance to access capital in order to facilitate growth of the businesses. Although the Transaction will give JustKapital the scale and size to access new sources of capital, there is no guarantee that JustKapital will be able to obtain the funding it requires to successfully exploit all opportunities presented by the Transaction.

(h) There is no guarantee that all amounts that are stated as being recoverable (Accounts Receivable) will actually be recovered.

(i) The NHF business relies on its partner provider network to facilitate relationships between NHF and local personal injury attorneys, medical practitioners, hospitals and patients, allowing NHF to scale rapidly. There is the risk that these relationships could deteriorate over time.

(j) Shareholders will be dependent on the management of JustKapital and NHF to assess financing opportunities as they arise. The continued success of NHF may be at risk if Wattel or Siegel cease to be involved in the management of NHF. This risk is to some extent mitigated by a condition precedent to the Transaction of each of Wattel and Siegel entering into a three year employment agreement with usual non-compete provisions on termination of the employment arrangements. There is no guarantee that a breach of the non-compete provisions will be enforceable and there is no certainty in relation to the remedies that would be available for any such breach.

(k) JustKapital will be exposed to the volatility and fluctuations of the exchange rate between the American dollar and the Australian dollar. Post consolidation, JKL intends to change its reporting currency to US$ and financial year end to December. Global currencies are affected by a number of factors that are beyond the control of JustKapital. These factors include economic conditions in the relevant country and elsewhere and the outlook for interest rates, inflation and other economic factors. These factors may have a positive or negative effect on JustKapital's operations and the ability to fund those operations. These risks are mitigated by the proposal to have US debt fund the US operations and Australian debt fund the Australian operations.

(l) Following completion of the Transaction, there are likely to be additional expenses incurred by JustKapital as a result of needing to comply with reporting requirements including expenses incurred in building out the Group's internal accounting function. These additional expenses are inherent to all multinational companies.

### General risks

JustKapital's business is affected by a range of industry specific and general legal and regulatory controls. Changes in these types of controls can have an adverse effect on JustKapital's financial performance. Further, any major shift in regulatory policy may impact on the profitability of JustKapital. For example, there is the possibility that additional regulations related to State tort reform in the jurisdictions in which NHF operates could affect NHF's business and financial performance.

### Consequences of the Transaction not proceeding

If the Transaction does not proceed, the Board considers that the main risks for JustKapital include the following matters:

(a) **Lack of scale**: If the Transaction does not proceed it is possible that JustKapital's growth opportunities will be limited.

(b) **Liquidity**: Under certain conditions, the liquidity of a particular market or security may be restricted, thus affecting a company's equity valuation. Historically, JustKapital has experienced low trading volume. This lack of liquidity or market depth could affect the valuation of JustKapital.

(c) **Lack of diversity**: JustKapital currently only operates in Australia. JustKapital will consequently be vulnerable to an economic downturn affecting this specific market.

(d) **Regulatory risk**: JustKapital is exposed to the effect of changes to various laws and regulations. Changes to local regulations or otherwise which could affect the earnings of JustKapital.

(e) **Costs**: the costs of the Transaction are expected to be A$1.5 million (excluding success fees).

(f) **Intentions**: the existing business of JustKapital is a disbursement funding business and JustKapital will only operate in Australia as a sub-scale disbursement funder.

If the Transaction is not approved by Shareholders, the Company will continue to wind-down its litigation funding business and will continue to operate its Australian focussed disbursement funding business. It is the opinion of the Board that this will be a sub-scale result for the listed environment and the Board will need to consider how this can be addressed in the future.

### Effect of the Transaction on JustKapital's financial position

### The Syndicated Acquisition Lenders and the Syndicated Acquisition Facility

JustKapital, certain subsidiaries of JustKapital, certain subsidiaries of Equity Trustees Limited (as facility agent and security trustee) and WHSP with others (as original lenders) propose to enter into a conditional syndicated facility agreement to provide a $42,000,000 Senior Secured Credit Facility (the **Syndicated Acquisition Facility**).

The key terms of the Syndicated Acquisition Facility are summarised as follows:

| | |
|---|---|
| **Facility Size:** | A$42 million senior secured credit facility |
| **Use of proceeds** | Fund the Transaction |
| **Interest Rate:** | 13.0% per annum |
| **Term** | Four years |

| | |
|---|---|
| **Establishment fee** | 329,880,000 Warrants (which equates to A$46,183,200 if all the Warrants exercised at the exercise price of A$0.14) |

The funds raised under the Syndicated Acquisition Facility are to be used to pay the Presidio consideration, for transaction costs and for working capital.

The pro forma accounts set out in Appendix 1 show the financial effect of the Secured Acquisition Facility on the JustKapital Group.

### Vendor Loan

JustKapital proposes to enter into a A$17.2 million vendor loan with the Founders on the same material terms as the Syndicated Acquisition Facility except the vendor loan will be unsecured and with no guarantee and indemnity provided (**Vendor Loan**).

### Australian equity

JustKapital will raise A$7.5 million under a placement that is fully underwritten by Pitt Capital at A$0.08 per share.

JustKapital will also raise up to A$11.8 million by offering investors the opportunity to subscribe under a non-underwritten pro-rata rights issue for new Shares at A$0.08 per share.

As funds raised under the Rights Issue are to be used for working capital, there will be no minimum subscription for the Rights Issue.

### Issue of new Shares to the Founders

Of the total purchase price payable by JustKapital under the Transaction, 215,097,403 new ordinary Shares will be issued to Wattel and Siegel (the Founders) separately.

Approval for the issue of the above new Shares is the subject of Resolutions 2 and 3.

### Warrants

The total number of Warrants to be issued is 452,743,636 comprising 329,880,000 (to the Syndicated Acquisition Lenders) and 122,863,636 (to the Founders). It is intended that the Warrants have an exercise price of A$0.14 exercisable at any time up to four years after issue.

The details of the terms of the Warrants are set out in Appendix 2.

### Issued Share Capital

In the previous 6 months, no securities in either JustKapital or NHF have been issued. The table below sets out the issued share capital of JustKapital before and after the Transaction:

| JustKapital Share Capital | Pre - Transaction | Post - Transaction |
|---|---|---|
| JustKapital Existing | 147,933,598 | 147,933,598 |
| Rights Issue | - | 56,250,000 |
| Placement | - | 93,750,000 |
| NHF Founders – scrip offer | - | 215,097,403 |
| **Shares on Issue** | **147,933,598** | **513,031,001** |

### ASX Listing Rules

JustKapital has made an application to the ASX to obtain a waiver from ASX Listing Rule 1.1 Condition 12 and ASX Listing Rule 2.1 Condition 2.

### Recommendations of the Board

The Board believes that the Transaction is in the best interests of JustKapital and its Shareholders and unanimously recommends that Shareholders vote in favour of the Resolutions.

All Directors who hold or control the right to vote their Shares intend to vote in favour of the Resolutions in respect of those Shares.

### Board and management of NHF

As a condition precedent to the Transaction, the founders of NHF will enter into employment agreements for a three-year term in which Wattel and Siegel must continue to manage the NHF business.

The employment agreements will include usual restraint obligations following termination or expiration of the employment agreements.

Wattel will be appointed as a director of the Board and other than his appointment, there will be no other changes to the Board.

Brief biographies for each of Wattel and Siegel are set out below.

| Name and position | Expertise |
| --- | --- |
| David Wattel<br><br>CEO of NHF | David Wattel graduated from the University of Illinois in 1984 with a degree in economics before obtaining his JD in 1988 from Arizona State University College of Law.<br><br>He has practiced personal injury law ever since graduating. He founded Wattel & York; a multi-state personal injury and medical malpractice law firm. He speaks at numerous conferences in the area of personal injury and litigation.<br><br>Mr. Wattel has been actively managing and overseeing the growth of NHF. |
| Dr. Mark Siegel<br><br>Medical Director of NHF | Dr. Siegel graduated from the University of Arizona in 1984 with a degree in biology and obtained his Doctor of Medicine in Osteopathic Medicine in 1987 from the College of Osteopathic Medicine of the Pacific.<br><br>Supplementing his education, Dr. Siegel interned with Hollywood Community Hospital from 1988 to 1990, when he left to practice family medicine in Arizona, specializing in personal injury treatment. In 1999, Dr. Siegel and a partner converted Phoenix Community Hospital into the first surgical specialty hospital in Arizona and renamed it Arizona Surgical Hospital.<br><br>Dr. Siegel practiced medicine there for six years before selling the facility to a group of private investors and devoting his time to the success of NHF. |

### Fee disclosure

Pitt Capital, The Fairbairn Partnership and CCZ Corporate Finance were advisors to the Transaction. In respect of fees in relation to these roles:

- Pitt Capital will receive a fee of A$650,000; and
- CCZ Corporate Finance and The Fairbairn Partnership will receive a fee of A$1,438,000.

# DETAILED INFORMATION ON THE RESOLUTIONS IN RESPECT OF THE TRANSACTION

## RESOLUTION 1 – CHANGE IN NATURE OR SCALE OF ACTIVITIES

ASX Listing Rule 11.1.2 requires a listed company to seek shareholder approval where it proposes to make a significant change to the nature or scale of its activities or if ASX exercises its discretion and requires a company to do so.

The Transaction constitutes a significant change to the scale of JustKapital's activities as contemplated by ASX Listing Rule 11.1. If the Transaction is approved by Shareholders and completion of the Transaction occurs, there will be a change in the nature and scale of the activities undertaken by JustKapital because:

(a) its disbursement funding business will change from a business that was focused on the Australian market to being a business with majority of its revenue expected to be generated in the US market; and

(b) JustKapital will gain significant global scale, particularly in its disbursement funding business.

Accordingly, JustKapital is seeking Shareholder approval for the Transaction as it constitutes a proposed change in the scale of its activities.

The ASX has advised JustKapital that the change in the nature and scale of the Company's activities does require it to re-comply with the admission requirements set out in Chapters 1 and 2 of the ASX Listing Rules in accordance with ASX Listing Rule 11.1.3.

**Conditions of the Transaction**

Completion of the Transaction is subject to the satisfaction of the conditions specified in the Transaction Documents, the terms of which are summarised in Appendix 3 of the Explanatory Memorandum.

**Consequences of the Transaction not proceeding**

Consequences of the Transaction not proceeding are set out in the Explanatory Memorandum (see Consequences of the Transaction not proceeding (page 27)).

**Directors' recommendation**

The Board believes that Resolution 1 is in the best interests of the Company and unanimously recommends that Shareholders vote in favour of this Resolution.

The Chair intends to exercise all available proxies in favour of Resolution 1.

## RESOLUTIONS 2 & 3 – APPROVAL TO ISSUE SHARES TO WATTEL AND SIEGEL

Part of the total purchase price payable by JustKapital under the Transaction will be satisfied by the issue of new ordinary Shares to each of Wattel and Siegel. The number of new Shares to be issued is 215,097,403 Shares. In addition Wattel and Siegal are to be issued Warrants and provide vendor loans as set out below:

**Total consideration for Transaction**

| Seller | NHF Shares | Purchase Price |
|---|---|---|
| Presidio | Presidio Shares | US$26.5 million |
| David Wattel | Sale Shares | 107,548,701 |
| Mark Siegel | | 107,548,702 |
| David Wattel | Vendor Loan | A$8,600,000 |
| Mark Siegel | | A$8,600,000 |
| David Wattel | Warrants | 61,431,818 |
| Mark Siegel | | 61,431,818 |
| **Total** | | **US$53 million** |

**Technical information required by ASX Listing Rule 7.3**

Pursuant to the requirements of ASX Listing Rule 7.3, the following information is provided in relation to the issue of the Shares to the Founders.

(a) a maximum of 215,097,403 Shares to be issued;

(b) the Shares will be issued on the completion of the Transaction, which is anticipated to be 28 September 2018, and must be no later than 3 months after the date of the Meeting;

(c) the Shares will be fully paid ordinary shares and will rank equally with the existing Shares currently on issue;

(d) the Shares will be issued at a deemed issue price of A$0.08 per share;

(e) the Shares will be subject to a voluntary escrow until 31 December 2021;

(f) the Shares will be issued to the Founders as set out in the Explanatory Memorandum; and

(g) the Shares are to be issued as part of the purchase price payable as consideration to the Founders under the Transaction.

**Item 7, section 611 of the Corporations Act**

Section 606(1) of the Corporations Act prohibits the acquisition by a person of voting shares in a company where, because of the acquisition, that person's (or someone else's) voting power in the company increases from:

(a) 20% or below to more than 20%; or

(b) a starting point that is above 20% and below 90% (**Prohibition**).

Item 7 of Section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

The Resolutions seek Shareholder approval for the purposes of Item 7 of Section 611 of the Corporations Act to allow the Company to issue 215,097,403 Shares and a further possible 122,863,636 Shares if the Warrants issued to the Founders are exercised.

If Shareholders approve the Share issue and warrant issue to David Wattel and Mark Siegel, their voting power in the Company could possibly be as high as 51.4% on a fully diluted basis.

The table below describes a range of possible outcomes and the voting control held by David Wattel and Mark Siegel.

| | Wattel and Siegel exercise all their Warrants | Wattel and Siegel exercise 75% of their Warrants | Wattel and Siegel exercise 50% of their Warrants | Wattel and Siegel exercise 25% of their Warrants |
|---|---|---|---|---|
| No other Warrant holder exercises Warrants | 51.4% | 49.0% | 46.4% | 43.5% |
| 75% of other Warrant holder exercises their Warrants and Notes | 37.3% | 35.1% | 32.8% | 30.2% |
| 50% of other Warrant holder exercises their Warrants and Notes | 41.1% | 38.8% | 36.3% | 33.6% |
| 25% of other Warrant holder exercises their Warrants and Notes | 45.7% | 43.3% | 40.7% | 37.9% |

For the purposes of item 7, section 611 of the Corporations Act, it is important for Shareholders to be aware of the effect of the Transaction on the voting power of JustKapital. Under the Corporations Act, voting power is calculated by determining the total number of votes attached to the person or their associates and expressing this as a percentage of the total number of votes attached to all the voting shares in JustKapital.

**Independent Expert and Director Consideration**

The Board has given detailed consideration to the Transaction. The Board considers that the Transaction is in the best interests of the Company and recommend the Transaction to Shareholders.

**The Independent Expert was asked whether the Transaction is fair and reasonable to the non-associated shareholders of JustKapital. The Independent Expert considered the terms of the Transaction as outlined in the body of this document and concluded that the Transaction is fair and reasonable to Shareholders.**

**Directors' recommendation**

The Board believes that Resolutions 2 and 3 are in the best interests of the Company and unanimously recommends that Shareholders vote in favour of these Resolutions.

The Chair intends to exercise all available proxies in favour of Resolutions 2 and 3.

## RESOLUTION 4 – APPROVAL OF THE COMPANY, WHSP, WATTEL, SIEGEL AND THEIR RESPECTIVE ASSOCIATES ACQUIRING A RELEVANT INTEREST IN SHARES

As part of the Transaction JustKapital and Wattel and Siegel propose to enter into voluntary escrow deeds to restrict the sale of the shares allotted to Wattel and Siegel as part of the Transaction. That will result in the Company obtaining a relevant interest for the purposes of item 7 of section 611 of the Corporations Act.

The Company has applied to ASIC for relief to modify section 609 of the Corporations Act, such that the Company does not acquire a relevant interest in the Escrowed Shares for the purposes of the takeovers provisions of the Corporations Act merely because it is a party to the Escrow Deed.

The Independent Expert's Report prepared for the purpose of Resolution 2 also considers Resolution 3 and Resolution 4 in order to satisfy the requirements for shareholder approval under item 7 of section 611 of the Corporations Act.

The Independent Expert has concluded that the Transaction and the Escrow Deed are fair and reasonable to the Non-Associated Shareholders.

**Directors' recommendation**

The Board believes that Resolution 4 is in the best interests of the Company and unanimously recommends that Shareholders vote in favour of this Resolution.

The Chair intends to exercise all available proxies in favour of Resolution 4.

### RESOLUTIONS 5 & 6 – APPROVAL TO ISSUE SHARES TO WATTEL AND SIEGEL ON EXERCISE OF THE WARRANTS

As part of the Transaction JustKapital proposes to issue Warrants to Wattel and Siegel that entitle them to additional shares in JustKapital.

Resolutions 5 and 6 seek approval of a possible share allotment that will result from the exercise of the Warrants issued to Wattel and Siegel. The allotment needs to be approved pursuant to item 7 of section 611 of the Corporations Act.

The Independent Expert's Report prepared for the purpose of Resolution 4 also considers Resolution 5 and 6 in order to satisfy the requirements for shareholder approval under item 7 of section 611 of the Corporations Act.

The Independent Expert has concluded that the Transaction and the issue of the warrants are fair and reasonable to the Non-Associated Shareholders.

**Directors' recommendation**

The Board believes that Resolutions 5 and 6 are in the best interests of the Company and unanimously recommends that Shareholders vote in favour of this Resolution.

The Chair intends to exercise all available proxies in favour of Resolutions 5 and 6.

### RESOLUTION 7 – APPROVAL TO ISSUE WARRANTS TO SYNDICATED ACQUISITION LENDERS

As part of the Transaction JustKapital proposes to issue Warrants to WHSP and the Syndicated Acquisition Lenders as an establishment fee.

Listing Rule 7.1 provides that, unless an exemption applies, a company must not, without prior approval of shareholders, issue or agree to issue equity securities if those equity securities will in themselves, or when aggregated with the ordinary securities issued by the company during the previous 12 months, exceed 15% of the number of ordinary securities issued at the commencement of that 12-month period. Accordingly, under Resolution 7, JustKapital seeks from Shareholders approval for the possible issue of a total of 329,880,000 Warrants to the Syndicated Acquisition Lenders so as to limit the restrictive effect of Listing Rule 7.1 on any further issues of equity securities as a result of the Warrants being issued.

The Shares will be issued when the Warrants are exercised.

**Technical information required by ASX Listing Rule 7.3**

Pursuant to the requirements of ASX Listing Rule 7.3, the following information is provided in relation to the issue of Warrants to the Lenders.

(a) a maximum of 329,880,000 Warrants will be issued;

(b) the Warrants will be issued on a single date on satisfaction of the conditions to drawdown under the Syndicated Acquisition Facility and in any event, no later than 3 months after the date of the Meeting;

(c) the Warrants are issued for nil cash consideration, in satisfaction of an establishment fee due to the Syndicated Acquisition Lenders;

(d) the Warrants are to be issued to WHSP and other professional and institutional investors comprising the Syndicated Acquisition Lenders;

(e) the terms of the Warrants are disclosed in Appendix 2;

(f) the Syndicated Acquisition Lenders are not a related party of JustKapital;

(g) no funds will be raised from this issue of Warrants, however funds will be raised upon their conversion into shares.

**Directors' recommendation**

The Board believes that Resolution 7 is in the best interests of the Company and unanimously recommends that Shareholders vote in favour of this Resolution.

The Chair intends to exercise all available proxies in favour of Resolution 7.

## RESOLUTION 8 – APPROVAL TO ISSUE SHARES TO WHSP

As part of the funding of the Transaction JustKapital proposes to issue Warrants to WHSP as part of WHSP's role as underwriters, syndicated acquisition lender and advisers to the Transaction.

**Item 7, section 611 of the Corporations Act**

Section 606(1) of the Corporations Act prohibits the acquisition by a person of voting shares in a company where, because of the acquisition, that person's (or someone else's) voting power in the company increases from:

(a) 20% or below to more than 20%; or

(b) a starting point that is above 20% and below 90% (**Prohibition**).

Item 7 of Section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

Resolution 8 seeks Shareholder approval for the purposes of item 7 of Section 611 of the Corporations Act to allow the Company to issue up to a possible 302,250,000 Shares to WHSP and Pitt Capital if the Warrants issued to WHSP are exercised and if all the Shortfall Shares are allotted to WHSP and to allow WHSP, Pitt Capital and their Associates to acquire a relevant interest in the Shares the Company has a relevant interest in by virtue of WHSP, Pitt Capital and its Associates holding more than 20% of the Shares in the Company.

WHSP is Australia's second oldest publicly listed company, having listed on the Sydney Stock Exchange (as the ASX was then known) on 21 January 1903. WHSP operates as a diversified investment house, holding stakes within listed and unlisted companies. WHSP's diverse portfolio of assets encompasses many industries including natural resources, telecommunications, building materials, retail, agriculture, pharmaceuticals, financial services and corporate advisory. As at 31 January 2018, the pre-tax net asset value of WHSP's portfolio was $5.2 billion. WHSP seeks to be a supportive shareholder by working with its investee companies to create long-term value and deliver shareholder returns. Pitt Capital is a wholly-owned subsidiary of WHSP.

As at the date of this Notice, WHSP, Pitt Capital and their Associates do not have any voting power in the Company. Following the Transaction, WHSP's, Pitt Capital's and their Associates' voting power in the Company could possibly be as high as 45.4% on a fully diluted basis (not including the shares the subject of the Escrow Deed and the Company's existing voluntary escrow arrangements which WHSP, Pitt Capital and their Associates may have an entitlement to by virtue of a deemed interest because WHSP may hold more than 20% of JustKapital) that would include a maximum of 93,750,000 Shortfall Shares and the exercise of all 208,500,000 Warrants to be issued to WHSP.

If the numbers are adjusted for WHSP's, Pitt Capital's and their Associates' deemed interest in the Company (ie if WHSP exercises the Warrants and WHSP or Pitt Capital is allotted Shares comprising more than 20% then WHSP, Pitt Capital and their Associates will be taken to have the same relevant interest in the Shares that the Company has) then WHSP, Pitt Capital and their Associates could have a relevant interest and voting power in up to approximately 79% of the Shares and Resolution 8 seeks Shareholder approval for this maximum amount. It is relevant that this deemed interest only arises during the period that the shares are escrowed until 31 December 2021 and relevantly those shares can only vote in certain limited circumstances during that period.

The table below shows the maximum theoretical holding of WHSP:

| **WHSP entitlement** | **No. of Shares** |
|---|---|
| • Placement – Shortfall Shares | 93,750,000 |
| • Shares issued on exercise of the Warrants | 208,500,000 |
| **Total** | **302,250,000** |
| Escrow Shares deemed by the Corporations Act provisions to be held by WHSP, Pitt Capital and their Associates if they hold 20% or more of the Shares[18] | 223,861,896[19] |
| Maximum theoretical entitlement | 526,111,896 |

[18] Under the terms of the Escrow Deed these shares cannot vote during the escrow period ie 31 December 2021.

[19] This includes the 215,097,403 Shares to be escrowed under the Escrow Deed and 8,764,493 Shares that remain subject to escrow under voluntary escrow arrangements entered into between the Company and i) the management of JustKapital (in respect of the tranche 1 performance rights issued to JustKapital management based on FY17 annual results, being 1,431,160 Shares) and ii) the vendors of the litigation funding portfolio (in respect of 7,333,333 escrowed Shares to Litman Holdings).

The table below describes a range of possible outcomes and the voting control held by WHSP, Pitt Capital and their Associates (before any adjustment for any deemed relevant interest and voting power as described above.[20]

| | WHSP exercise all their Warrants and acquires all the Shortfall Shares | WHSP exercise 75% of their Warrants and acquires 75% of the Shortfall Shares | WHSP exercise 50% of their Warrants and acquires 50% of the Shortfall Shares | WHSP exercise 25% of their Warrants and acquires 25% of the Shortfall Shares |
|---|---|---|---|---|
| No other Warrant holder exercises Warrants | 45.4% | 38.4% | 29.4% | 17.2% |
| 75% of other Warrant holder exercises their Warrants and Notes | 35.6% | 29.3% | 21.7% | 12.2% |
| 50% of other Warrant holder exercises their Warrants and Notes | 38.4% | 31.8% | 23.8% | 13.5% |
| 25% of other Warrant holder exercises their Warrants and Notes | 41.6% | 34.8% | 26.3% | 15.1% |

For the purposes of item 7, section 611 of the Corporations Act, it is important for Shareholders to be aware of the effect of the Transaction on the voting power of WHSP, Pitt Capital and their Associates. Under the Corporations Act, voting power is calculated by determining the total number of votes attached to the person or their associates and expressing this as a percentage of the total number of votes attached to all the voting shares in JustKapital.

**Independent Expert and Director Consideration**

**The Independent Expert has assessed that the grant of the Warrants and the allotment of Shares either pursuant to the exercise of the Warrants or as Shortfall Shares to WHSP and Pitt Capital is fair and reasonable to non-associated Shareholders.**

The Board has given detailed consideration to the grant of the Warrants and the allotment of Shares to WHSP and Pitt Capital both under the Warrants and as part of the Underwriting Agreement. The Board considers that the grant of the Warrants and the allotment of Shares to WHSP and Pitt Capital is in the best interests of the Company and recommends the Transaction to Shareholders.

**The Independent Expert was asked whether the grant of the Warrants and the allotment of Shares to WHSP and Pitt Capital is fair and reasonable to the non-associated shareholders of JustKapital. The Independent Expert considered the terms of the grant of the Warrants and the allotment of Shares to WHSP and Pitt Capital as outlined in the body of this document and concluded that the Transaction is fair and reasonable to Shareholders.**

**Directors' recommendation**

The Board believes that Resolution 8 is in the best interests of the Company and unanimously recommends that Shareholders vote in favour of this Resolution.

The Chair intends to exercise all available proxies in favour of Resolution 8.

## RESOLUTION 9 – APPROVAL TO GRANT SECURITY TO WHSP

As part of the Transaction JustKapital proposes to grant security pursuant to a general security agreement to WHSP and the Syndicated Acquisition Lenders to secure repayment of funds advanced under the Syndicated Acquisition Facility.

Listing Rule 10.1 provides that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset, when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5% of the equity interest of that entity at the date of the last audited accounts. Based on the audited accounts as at 30/06/2017 the value of a 5% equity interest of JustKapital is approximately $0.7 million. Listing Rule 10.1 applies where the acquirer of the relevant assets is a related party of the listed entity. WHSP, is considered a substantial shareholder, and is likely to end up holding more than 10% of the share capital of JustKapital after the Transaction.

Listing Rule 10.10.2 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the Transaction is fair and reasonable to the non-associated Shareholders.

[20] Calculations based on the convertible notes on issue having been converted to 78,125,000 Shares. The amounts set out in the table are calculated on the basis of raising A$0.00 under the Rights Issue.

**Independent Expert and Director Consideration**

**The Independent Expert has assessed that the grant of the security as part of the Transaction is fair and reasonable to non-associated Shareholders.**

The Board has given detailed consideration to the grant of the security to WHSP and the Syndicated Acquisition Lenders and as part of the Transaction. The Board considers that the grant of the security to WHSP and the Syndicated Acquisition Lenders is in the best interests of the Company and recommends the Transaction to Shareholders.

**The Independent Expert was asked whether the grant of the security to WHSP and the Syndicated Acquisition Lenders is fair and reasonable to the non-associated shareholders of JustKapital. The Independent Expert considered the terms of the grant of the security to WHSP and the Syndicated Acquisition Lenders as outlined in the body of this document and concluded that the Transaction is fair and reasonable to non-associated Shareholders.**

## RESOLUTION 10 – APPROVAL OF THE PLACEMENT

The Company proposes a A$7.5m placement fully underwritten by Pitt Capital, a wholly-owned subsidiary of WHSP at A$0.08. Further information about the effect of the Transaction on JustKapital's financial and capital position is set out in this Explanatory Memorandum (see Sources and Uses of Proceeds (page 23)).

**Technical information required by ASX Listing Rule 7.3**

Pursuant to the requirements of ASX Listing Rule 7.3, the following information is provided in relation to the issue of shares in connection with the Placement.

(a) a maximum of 93,750,000 Shares to be issued;

(b) the Shares will be issued at or about the time of completion of the Transaction, which is anticipated to be 28 September 2018, and must be no later than 3 months after the date of the Meeting;

(c) the issue price of the Shares to be issued under the Placement is A$0.08 per share;

(d) the Shares will be fully paid ordinary shares and will rank equally with the existing Shares currently on issue; and

(e) the Shares will be issued to the institutional investors as set out in the Explanatory Memorandum; and

(f) the funds raised under the Placement are expected to be used to fund the Transaction.

**Directors' recommendation**

The Board believes that Resolution 10 is in the best interests of the Company and unanimously recommends that Shareholders vote in favour of this Resolution.

The Chair intends to exercise all available proxies in favour of Resolution 10.

## RESOLUTION 11 – ELECTION OF DAVID WATTEL

David Wattel, co-founder and MD of NHF, is being put forward as a director of JustKapital. Wattel will bring significant and valuable experience to the Board (see Board and management of NHF for a brief biography of Wattel (pages 28-29))

## RESOLUTION 12 – CHANGE OF NAME TO "LAWFINANCE" (ASX:LAW)

With the change in focus for the Company, the Board considers that it is appropriate for the Company to adopt a new name which is more reflective of its future direction. It is therefore proposed to change the name of the Company to "LawFinance Limited". The Board has approved this change of name subject to the approval of Shareholders. The change will not affect the legal status of the Company.

Section 157(1)(a) of the Corporations Act provides that a company may change its name if the company passes a special resolution adopting a new name. For a special resolution to be passed, at least 75% of the votes validly cast on the resolution by shareholders present and eligible to vote (in person, by proxy, by attorney, or in the case of a Shareholder which is a corporation, by representative) (by the number of shares) must be in favour of the resolution.

If the resolution is passed, the change of name will take effect when ASIC alters the details of the Company's registration. The proposed name has been reserved by the Company and if the resolution is passed, the Company will lodge a copy of that special resolution with ASIC in order to effect the change.

There will be a change to the Company's ASX listing code from "JKL" to "LAW" which will be announced on the ASX market announcements platform when the change of name takes effect.

**Directors' recommendation**

The Board recommends that Shareholders vote in favour of Resolution 12.

The Chair intends to vote all available proxies in favour of Resolution 12.

# GLOSSARY

In this Notice of Meeting, these terms have the following meanings:

| | |
|---|---|
| **AEST** | Australian Eastern Standard Time as observed in Sydney, New South Wales. |
| **Associate** | Has the meaning given to it by the ASX Listing Rules. |
| **ASX** | ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires, of 20 Bridge Street, Sydney, NSW 2000. |
| **ASX Listing Rules** or **Listing Rules** | The official ASX Listing Rules of the ASX and any other rules of the ASX which are applicable while the Company is admitted to the official list of the ASX, as amended or replaced from time to time, except to the extent of any express written waiver by the ASX. |
| **Board** | The current board of Directors. |
| **Chair** | The person chairing the Extraordinary General Meeting. |
| **Constitution** | The constitution of the Company. |
| **Corporations Act** | The *Corporations Act 2001* (Cth) as amended or replaced from time to time. |
| **Corporations Regulations** | *Corporations Regulations 2001* (Cth) as amended or replaced from time to time. |
| **Director** | A current director of the Company. |
| **Equity Offer** | The Rights Issue and the Placement. |
| **Exchange Rate** | A$1 equivalent to US$0.77 |
| **Explanatory Memorandum** | The explanatory memorandum accompanying this Notice of Meeting. |
| **Extraordinary General Meeting** or **Meeting** | Extraordinary General Meeting of the Company and, unless otherwise indicated, means the meeting of the Company's members convened by this Notice of Meeting. |
| **Founders** | Wattel and Siegel. |
| **Group** or the **JustKapital Group** | JustKapital and its subsidiaries. |
| **Independent Expert** | Grant Thornton Corporate Finance Pty Limited. |
| **JustKapital** or **the Company** | JustKapital Limited ACN 088 749 008. |
| **NHF** | National Health Finance HoldCo, LLC, a Delaware limited liability company formed under the laws of the State of Delaware, United States, on 23 May 2016. |
| **Notice of Meeting** | This notice of Extraordinary General Meeting including the Explanatory Memorandum and Proxy Form. |
| **Partner Providers** | The medical practitioners and attorneys who have signed contracts with NHF to operate within the NHF network and provide NHF with funding opportunities. |
| **Pitt Capital** or **the Underwriter** | Pitt Capital Partners Limited ACN 000 651 427, a wholly-owned subsidiary of WHSP. |
| **Placement** | The underwritten placement of new fully paid ordinary shares by JustKapital to institutional investors in Australia to raise A$7.5 million at A$0.08 per share. |
| **Presidio** | Presidio I and Presidio II. |
| **Presidio I** | Presidio Investors NHF, LP (a Delaware limited partnership) (an entity affiliated with Presidio II). |
| **Presidio II** | Presidio Investors NHF 2, LP (a Delaware limited partnership). |
| **Prospectus** | The prospectus in relation to the Rights Issue. |
| **Proxy Form** | The proxy form attached to this Notice of Meeting. |
| **Resolution** | The resolutions set out in this Notice of Meeting. |
| **Rights Issue** | The non-underwritten, 1:1 non-renounceable, pro-rata rights issue to Shareholders to raise up to A$11.8 million at A$0.08 per share. |

| | |
|---|---|
| **Share** | A fully paid ordinary share in the capital of JustKapital. |
| **Shareholder** | A holder of a Share. |
| **Shortfall Shares** | The Shares required to be purchased by Pitt Capital under and subject to the terms of the Underwriting Agreement. |
| **Siegel** | Dr Mark Siegel. |
| **Syndicated Acquisition Facility** | The facility provided by the Lenders as described in this Notice of Meeting. |
| **Syndicated Acquisition Lenders** | WHSP and others (as original lenders). |
| **Transaction** | The acquisition of NHF by JustKapital, as described in the Explanatory Memorandum. |
| **Transaction Documents** | The sale and purchase agreements entered into between JustKapital, Wattel, Siegel and Presidio, amongst other in relation to the Transaction, dated 18 July 2018 as described more fully in Appendix 3. |
| **Underwriting Agreement** | The agreement between Pitt Capital and JustKapital dated 18 July 2018, in terms of which Pitt Capital agree to underwrite A$7,500,000 of the Placement as described Part 5 of Appendix 3. |
| **Warrant** | A warrant, the terms of which are summarised in Appendix 2. |
| **Warrantholder** | The registered holder of a Warrant. |
| **Wattel** | David Wattel. |
| **WHSP** | Washington H. Soul Pattinson and Company Limited ACN 000 002 728. |

# DIRECTORY

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### Share Registry

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# APPENDIX 1 - FINANCIAL INFORMATION - PRO FORMA FINANCIAL STATEMENTS FOR NHF & JUSTKAPITAL

## A1 Introduction

### A1.1 Overview of the Financial Information

The financial information contained in this Appendix includes historical and pro-forma historical consolidated financial information for the years ended 31 December 2016 and 31 December 2017 including the:

- Historical consolidated statement of profit and loss and other comprehensive income for the years ended 31 December 2016 and 31 December 2017 for JKL (the "Historical Statement of Profit and Loss");
- Historical consolidated statement of financial position as at 31 December 2017 for JKL (the "Historical Statement of Financial Position"); and
- Historical consolidated cash flows for the years ending 31 December 2017 and 31 December 2016 for JKL (the "Historical Cash flows), together the "Historical Financial Information",
- Pro-Forma historical consolidated statement of profit and loss and other comprehensive income as if JKL and NHF had always been part of the same group for the years ended 31 December 2016 and 31 December 2017 (the "Pro-Forma Historical Statement of Profit and Loss);
- Pro-Forma historical consolidated statement of financial position as at 31 December 2017 as if JKL had acquired NHF on that date; (the "Pro-Forma Historical Statement of Financial Position); and
- Pro-forma Historical consolidated cash flows as if JKL and NHF had always been part of the same group for the years ending 31 December 2017 and 31 December 2016 (the "Pro-forma Historical Cash flows),

together the "Pro-forma Historical Financial Information",

All amounts disclosed in this Appendix are presented in US Dollars (USD) and unless otherwise noted, are rounded to the nearest thousand. Some numerical figures included in the Explanatory Memorandum have been subject to rounding adjustments. Any discrepancies between totals and sums of components in figures or tables contained in this Explanatory Memorandum are due to rounding.

This Appendix also summarises the basis of preparation and presentation of the Financial Information (refer to section A2 of this Appendix).

The information in this Appendix should be read in conjunction with the risk factors set out in the section titled "Potential disadvantages and risks of the Transaction", and the other information contained in this Explanatory Memorandum.

JKL's significant accounting policies are set out in section A6 of this Appendix. Pro-forma adjustments have been made to the NHF consolidated statement of profit and loss and consolidated statement of financial position to align the accounting for the loan receivable to the accounting policies applied by JKL. These adjustments are outlined in tables A3.4a and A3.4b.

## A2 Basis of preparation of the Financial Information

### A2.1 Overview

The Financial Information has been prepared for the purpose of the Transaction and is intended to present shareholders with information to assist them in understanding the underlying financial performance and financial position of JKL and to understand the impact of the acquisition of NHF. The Directors are responsible for the preparation and presentation of the Financial Information.

The Historical Financial Information included in sections A3, A4 and A5 has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards (AAS) (including Australian Accounting Interpretations) issued by the Australian Accounting Standards Board which are also consistent with the accounting policies adopted by JKL in its most recent historical financial statements for the half year ended 31 December 2017. The accounting policies of JKL are outlined in section A6.

The Pro-Forma Historical Financial Information has been prepared by combining the Historical Financial Information with certain pro-forma adjustments. These pro-forma adjustments include adjustments related to NHF based upon the US GAAP statutory financial statements as adjusted such that the accounting for the NHF loan receivable aligns to the accounting policies adopted by JKL. Other adjustments have been prepared in a manner consistent with AAS, except that they reflect the recognition of certain items in periods different from the applicable period under AAS, and they exclude certain transactions that occurred in the relevant periods, and they include the impact of certain transactions as if they occurred on or before 31 December 2017.

The Financial Information is presented in an abbreviated form and does not include all of the presentation, disclosures, statements or comparative information as required by AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act.

By its nature, Pro-Forma Historical Financial Information is illustrative only. As the Pro-forma Statement of Profit and Loss and the Pro-forma Historical Cashflows have been prepared as if JKL and NHF had always operated as one group, it does not purport to reflect the actual financial performance for the relevant periods. The Pro-Forma Historical Statement of Financial Position includes pro-forma adjustments to reflect transactions as if they had occurred at 31 December 2017 and consequently, does not purport to reflect the actual financial position of the combined JKL and NHF group as at 31 December 2017.

No adjustments have been made to the Pro-Forma Historical Financial Information to reflect the impact of the business combination that will impact the profit and loss of the Group post transaction. Whilst the Pro-Forma Historical Statement of Financial Position does reflect the expected consideration and fair value adjustment to the loan receivable balance, no formal purchase price allocation exercise has been undertaken to confirm the fair values of identifiable assets and liabilities including identification of any intangibles acquired.

### A2.2 Preparation of the Historical Financial Information

The Historical Financial Information has been derived from the following:

- JustKapital Limited consolidated interim financial statements for the half years ended 31 December 2015, 31 December 2016 (as restated in the 31 December 2017 interim financial statements) and 31 December 2017; and
- JustKapital Limited audited consolidated financial statements adjusted to align the accounting for the loan receivable to the current accounting policies applied by JKL for the years ended 30 June 2016 and 30 June 2017.

The consolidated financial statements of JKL were audited by Stantons International in accordance with Australian Auditing Standards and Stantons International issued an unqualified audit opinion in respect of these financial statements. JKL has a year end of 30 June and the financial statements are presented in Australian dollars which is the functional and presentation currency of the entity.

The consolidated interim financial statements of JKL are unaudited but have been reviewed by Stantons International in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* and Stantons International issued an unmodified review opinion.

The financial statements and interim financial statements are available from the Company's website (http://www.justkapital.com.au) or the ASX website (http://www.asx.com.au/).

### A2.3 Preparation of the Pro-forma Historical Financial Information

The Pro-forma Historical Financial Information has been derived from the following:

- The Historical Financial Information;
- National Health Finance HoldCo LLC audited consolidated financial statements prepared in accordance with US Generally Accepted Accounting Principles ('US GAAP') for the years ended 31 December 2016 and 31 December 2017 adjusted to align the accounting for the loan receivable to the accounting policies applied by JKL;
- Pro-Forma adjustments made to reflect the impact on the Statement of Profit and Loss and Other Comprehensive Income of JKL acquiring NHF as if the two entities had always been part of the same group;
- Pro-Forma adjustments made to the Historical Statement of Profit and Loss and Other Comprehensive Income for expenses that were considered non-recurring in nature as they relate to the acquisition of NHF;
- Pro-Forma adjustments made to the Historical Statement of Financial Position to reflect the capital raising and acquisition of NHF by JKL as if they had occurred as at 31 December 2017.

The NHF consolidated financial statements were compiled in accordance with Statements on Standards for Accounting and Review services promulgated by the Account and Review Services Committee of the American Institute of Certified Public Accountants (AICPA) by Price Kong and Company. The financial statements were audited by Price Kong and Company in accordance with auditing standards generally accepted in the United States of America and Price Kong issued an unqualified audit opinion in respect of these financial statements. NHF has a year end of 31 December and the financial statements are presented in US dollars which is the functional and presentation currency of the entity.

As NHF is a Limited Liability Company ('LLC') the tax payable on its profits is borne by its members, not by NHF itself. In preparing the Financial Information tax adjustments have be made to the Pro-forma Statement of Profit and Loss to reflect the tax expense/benefit which would be have been borne by JKL, as if it had been NHF's sole member, assuming an effective tax rate of 28% and that all deferred tax assets would have been assessed as recoverable. No adjustments have been made to the Pro-forma Statement of Financial Position to bring to account any applicable deferred taxes balances that may be applicable noting that recognition would result in an offsetting adjustment to goodwill.

A provisional purchase price allocation calculation has been undertaken to identify the fair value of the NHF loan receivable, but no other purchase price allocation calculations have been performed. The Directors believe that following the acquisition and a more comprehensive purchase price allocation exercise is completed additional intangible assets such as customer relationships and brand names may be identified resulting in a commensurate reduction in the carrying amount of goodwill.

Investors should note that past results are not a guarantee of future performance. Due to its nature, the Pro-Forma Historical Financial Information does not represent the Company's actual or prospective financial performance or financial position.

## A3 Presentation of the Statements of Profit and Loss

### A3.1 Summary of Pro-forma Statements of Profit and Loss

Table A3.1a shows the Historical and Pro-forma Historical Statement of Profit and Loss for the years ending 31 December 2017 and 2016. Refer to tables A3.2a and A3.2b for the reconciliation of Historical Statement of Profit and Loss to the Pro-forma Statement of Profit and Loss.

**Table A3.1a Historical and Pro-forma Historical Statements of Profit and Loss**

| | **JKL Historical Statements of Profit and Loss** | | **Combined JKL and NHF Finance Pro-forma Statements of Profit and Loss** | |
|---|---|---|---|---|
| **USD '000** | **For the year ended 31 December 2017** | **For the year ended 31 December 2016** | **For the year ended 31 December 2017** | **For the year ended 31 December 2016** |
| | | | | |
| Net income | 3,516 | 243 | 12,523 | 19,722 |
| Non-supplier related cost of sales | (253) | (13) | (253) | (13) |
| **Gross margin** | **3,263** | **230** | **12,270** | **19,709** |
| | | | | |
| Other income | 1,138 | 117 | 1,167 | 117 |
| | | | | |
| **Expenses** | | | | |
| Employee, general, administration and other expenses | (5,316) | (3,554) | (10,668) | (8,994) |
| Business purchase expense | (1,981) | (860) | (2) | (860) |
| Finance costs | (3,876) | (1,677) | (9,839) | (5,574) |
| **Loss before income tax (expense)/benefit** | **(6,772)** | **(5,744)** | **(7,072)** | **4,398** |
| | | | | |
| Income tax benefit/(expense) | 1,220 | 2,117 | 1,265 | **(723)** |
| | | | | |
| **Loss after income tax benefit/(expense) attributable to the owners** | **(5,552)** | **(3,627)** | **(5,807)** | **3,675** |
| | | | | |
| Other comprehensive income, net of tax | 6 | (97) | 6 | (97) |
| | | | | |
| **Total comprehensive loss attributable to the owners** | **(5,546)** | **(3,724)** | **(5,801)** | **3,578** |

## A3.2 Historical Statements of Profit and Loss and Pro-Forma Historical Statements of Profit and Loss

The Pro-Forma Historical Statements of Profit and Loss as set out in Tables A3.2a A3.2b are derived from the Historical Statement of Profit and Loss of JKL, adjusted to remove certain costs of JKL considered to be non-recurring and to reflect the impact of JKL acquiring NHF as if the two entities had always been part of the same group.

**Table A3.2a: Reconciliation Historical Statement of Profit and Loss to Pro-Forma Historical Statement of Profit and Loss – 31 December 2017**

| 31 December 2017<br>USD '000 | Historical Statement of Profit and Loss[1] | Pro-forma adjustment – acquisition of NHF[2] | Pro-forma adjustment – transaction costs[3] | Pro-forma Historical Statement of Profit and Loss |
|---|---|---|---|---|
| | | | | |
| Net income[4] | 3,516 | 9,007 | - | 12,523 |
| Non-supplier related cost of sales | (253) | - | - | (253) |
| **Gross margin** | **3,263** | **9,007** | **-** | **12,270** |
| | | | | |
| Other income[5] | 1,138 | 29 | - | 1,167 |
| | | | | |
| **Expenses** | | | | |
| Employee, general, administration and other expenses | (5,316) | (5,352) | - | (10,668) |
| Business purchase expense | (1,981) | - | 1,979 | (2) |
| Finance costs | (3,876) | (5,963) | - | (9,839) |
| **Loss before income tax (expense)/benefit** | **(6,772)** | **(2,279)** | **1,979** | **(7,072)** |
| | | | | |
| Income tax benefit/(expense)[6] | 1,220 | 638 | (593) | 1,265 |
| | | | | |
| **Loss after income tax benefit/(expense) attributable to the owners** | **(5,552)** | **(1,641)** | **1,386** | **(5,807)** |
| | | | | |
| Other comprehensive income, net of tax[7] | 6 | - | - | 6 |
| | | | | |
| **Total comprehensive loss attributable to the owners** | **(5,546)** | **(1,641)** | **1,386** | **(5,801)** |

**Footnotes:**

1. The Historical Statement of Profit and Loss has been derived from the financial statements of JKL. Refer to table A3.3a for reconciliation of Historical Statement of Profit and Loss to the statutory financial statements.
2. Pro-Forma adjustment balances are derived from the consolidated financial statements of NHF for the year ended 31 December 2017. The financial statements of NHF have been prepared in accordance with generally accepted accounting standards in the United States of America, tables A3.4a and A3.4b outline the audited US GAAP results of NHF for the years ended 31 December 2017 and 31 December 2016. These results have been adjusted to reflect the impact of aligning the accounting for the loan receivable to the accounting policies applied by JKL.
   The acquisition of NHF will be disclosed as its own segment in the consolidated JKL financial statements.
3. Expenses have been adjusted to remove certain expenses which have been incurred but considered to be non-recurring costs as they relate to due diligence, consulting and legal fees associated with the acquisition of NHF and related capital raisings.
4. Net income represents movements in fair value of amounts invoiced to customers as well as the amortisation of the day one margin. The accounting policy for recognition of revenue is included in section A6 of this Appendix.
5. Other Income includes interest income and commissions received.
6. The Australian entities within the JKL group have formed a tax consolidation group under the tax consolidation regime which enables the offset of taxable profits and losses between entities within the group. NHF does not currently pay tax as a Limited Liability Company however an adjustment has been included to reflect taxes in respect of NHF's profits, that would have been payable by JKL had the two companies had always been part of the same group, at an effective tax rate of 28%.
7. Other comprehensive income relates to foreign currency translation adjustments arising from the translation of the results of JKL into a USD presentation currency.

**Table A3.2b: Reconciliation Historical Statement of Profit and Loss to Pro-Forma Historical Statement of Profit and Loss – 31 December 2016**

| **31 December 2016**<br>**USD '000** | **Historical Statement of Profit and Loss[1]** | **Pro-forma adjustment – acquisition of NHF[2]** | **Pro-forma Historical Statement of Profit and Loss** |
|---|---|---|---|
| | | | |
| Net income[3] | 243 | 19,479 | 19,722 |
| Non-supplier related cost of sales | (13) | - | (13) |
| **Gross margin** | **230** | **19,479** | **19,709** |
| | | | |
| Other income[4] | 117 | - | 117 |
| | | | |
| **Expenses** | | | |
| Employee, general, administration and other expenses | (3,554) | (5,440) | (8,994) |
| Business purchase expense | (860) | - | (860) |
| Finance costs | (1,677) | (3,897) | (5,574) |
| **Loss before income tax (expense)/benefit** | **(5,744)** | **10,142** | **4,398** |
| | | | |
| Income tax benefit/(expense)[5] | **2,117** | **(2,840)** | **(723)** |
| | | | |
| **Loss after income tax benefit/(expense) attributable to the owners** | **(3,627)** | **7,302** | **3,675** |
| | | | |
| Other comprehensive income, net of tax[6] | (97) | - | (97) |
| | | | |
| **Total comprehensive loss attributable to the owners** | **(3,724)** | **7,302** | **3,578** |

**Footnotes**

1. The Historical Statement of Profit and Loss has been derived from the financial statements of JKL. Refer to table A3.3b for reconciliation of Historical Statement of Profit and Loss to the statutory financial statements.
2. Pro-Forma adjustment balances are derived from the consolidated financial statements of NHF for the year ended 31 December 2016. The financial statements of NHF have been prepared in accordance with generally accepted accounting standards in the United States of America, tables A3.4a and A3.4b outline the audited US GAAP results of NHF for the years ended 31 December 2017 and 31 December 2016. These results have been adjusted to reflect the impact of aligning the accounting for the loan receivable to the accounting policies applied by JKL.
   The acquisition of NHF will be included disclosed as its own segment in the consolidated JKL financial statements.
3. Net income represents movements in fair value of amounts invoiced to customers as well as the amortisation of the day one margin. The accounting policy for recognition of revenue is included in section A6 of this Appendix.
4. Other Income includes interest income and commissions received.
5. The Australian entities within the JKL group have formed a tax consolidation group under the tax consolidation regime which enables the offset of taxable profits and losses between entities within the group. NHF does not currently pay tax as a Limited Liability Company however an adjustment has been included to reflect taxes payable by JKL at an effective tax rate of 28%.
6. Other comprehensive income relates to foreign currency translation adjustments arising from the translation of the results of JKL into a USD presentation currency.

## A3.3 Reconciliation of JustKapital Limited Statutory Historical Statements of Profit and Loss to Historical Statements of Profit and Loss

The Historical Statements of Profit and Loss has been derived from the audited consolidated financial statements for the years 30 June 2016 and 30 June 2017 and the unaudited interim consolidated financial statements for the half years ended 31 December 2015, 31 December 2016 and 31 December 2017. Tables A3.3a and A3.3b show the reconciliation of the statutory financial statements to the Historical Statement of Profit and Loss.

**Table A3.3a Reconciliation of JustKapital Limited Statutory Historical Statement of profit and loss to Historical Statement of Profit and Loss – 31 December 2017**

| | Historical result for the year ended 30 June 2017[1] | Less: Interim result for the half year ended 31 December 2016[2] | Derived calendar year 31 December 2017 H1 result[3] | Add: Interim result for the half year ended 31 December 2017[4] | Derived calendar year 31 December 2017 result[5] | Derived calendar year 31 December 2017 result[6] |
|---|---|---|---|---|---|---|
| | AUD | AUD | AUD | AUD | AUD | USD |
| Net income | 3,424 | 1,413 | **2,011** | 2,561 | **4,572** | **3,516** |
| Non-supplier related cost of sales | (211) | (18) | **(193)** | (136) | **(329)** | **(253)** |
| **Gross margin** | **3,213** | **1,395** | **1,818** | **2,425** | **4,243** | **3,263** |
| | | | | | | |
| Other income | 1,309 | 138 | **1,171** | 308 | **1,479** | **1,138** |
| | | | | | | |
| **Expenses** | | | | | | |
| Employee, general, administration and other expenses | (6,641) | (2,251) | **(4,390)** | (2,522) | **(6,912)** | **(5,316)** |
| Business Purchase Expense | (843) | (475) | **(368)** | (2,207) | **(2,575)** | **(1,981)** |
| Finance costs | (3,733) | (1,225) | **(2,508)** | (2,531) | **(5,039)** | **(3,876)** |
| **Loss before income tax** | **(6,695)** | **(2,418)** | **(4,277)** | **(4,527)** | **(8,804)** | **(6,772)** |
| | | | | | | |
| Income tax (expense)/benefit | 656 | (202) | **858** | 728 | **1,586** | **1,220** |
| | | | | | | |
| **Loss after tax** | **(6,039)** | **(2,620)** | **(3, 419)** | **(3,799)** | **(7,218)** | **(5,552)** |
| | | | | | | |
| Other comprehensive income for the year, net of tax[7] | - | - | **-** | - | **-** | **6** |
| | | | | | | |
| **Total comprehensive loss for the year attributable to the owners** | **(6,039)** | **(2,620)** | **(3,419)** | **(3,799)** | **(7,218)** | **(5,546)** |

**Footnotes:**

1. Extracted from the JustKapital Limited 30 June 2017 Annual Report adjusted to align the accounting for the loan receivable to the accounting policies applied by JKL
2. Extracted from the JustKapital Limited 31 December 2017 Interim Financial Report (restated comparative)
3. Derived profit and loss statement for the period 1 January 2017 to 30 June 2017
4. Extracted from the JustKapital Limited 31 December 2017 Interim Financial Report
5. Derived profit and loss statement for the period 1 January 2017 to 31 December 2017
6. Derived profit and loss statement for the period 1 January 2017 to 31 December 2017 converted to USD. Profit and Loss accounts have been converted at AUD 1: USD0.7692 being the average rate for the year
7. Other comprehensive income relates to foreign currency translation adjustments arising from the translation of the results of JKL in a USD presentation currency

**Table A3.3b Reconciliation of JustKapital Limited Statutory Historical Statement of profit and loss to JKL Historical Statement of Profit and Loss – 31 December 2016**

| | Historical result for the year ended 30 June 2016[1] | Less: Interim result for the half year ended 31 December 2015[2] | Derived calendar year 31 December 2016 H1 result[3] | Interim result for the half year ended 31 December 2016[4] | Derived calendar year 31 December 2016 result[5] | Derived calendar year 31 December 2016 result[6] |
|---|---|---|---|---|---|---|
| | AUD | AUD | AUD | AUD | AUD | USD |
| Net income | (1,086) | - | **(1,086)** | 1,413 | **327** | **243** |
| Non-supplier related cost of sales | - | - | **-** | (18) | **(18)** | **(13)** |
| **Gross margin** | **(1,086)** | **-** | **(1,086)** | **1,395** | **309** | **230** |
| | | | | | | |
| Other income | 158 | 138 | **20** | 138 | **158** | **117** |
| | | | | | | |
| **Expenses** | | | | | | |
| Employee, general, administration and other expenses | (4,209) | (1,679) | **(2,530)** | (2,251) | **(4,781)** | **(3,554)** |
| Business Purchase Expense | (1,269) | (587) | **(682)** | (475) | **(1,157)** | **(860)** |
| Finance costs | (1,031) | - | **(1,031)** | (1,225) | **(2,256)** | **(1,677)** |
| **Profit/(loss) before income tax** | **(7,437)** | **(2,128)** | **(5,309)** | **(2,418)** | **(7,727)** | **(5,744)** |
| | | | | | | |
| Income tax (expense)/benefit | 3,051 | - | **3,051** | (202) | **2,849** | **2,117** |
| | | | | | | |
| **Profit/(loss) after tax** | **(4,386)** | **(2,128)** | **(2,258)** | **(2,620)** | **(4,878)** | **(3,627)** |
| | | | | | | |
| Other comprehensive income for the year, net of tax[7] | - | - | **-** | - | **-** | **(97)** |
| | | | | | | |
| **Total comprehensive loss for the year attributable to the owners** | **(4,386)** | **(2,128)** | **(2,258)** | **(2,620)** | **(4,878)** | **(3,724)** |

**Footnotes:**

1. Extracted from the JustKapital Limited 30 June 2016 Annual Report adjusted to align the accounting for the loan receivable to the current accounting policies applied by JKL
2. Extracted from the JustKapital Limited 31 December 2015 Interim Financial Report
3. Derived profit and loss statement for the period 1 January 2016 to 30 June 2016
4. Extracted from the JustKapital Limited 31 December 2017 Interim Financial Report (restated comparative)
5. Derived profit and loss statement for the period 1 January 2016 to 31 December 2016
6. Derived profit and loss statement for the period 1 January 2016 to 31 December 2016 converted to USD. Profit and Loss accounts have been converted at AUD 1:USD 0.7434 being the average rate for the year
7. Other comprehensive income relates to foreign currency translation adjustments arising from the translation of the results of JKL in a USD presentation currency

## A3.4 Reconciliation of NHF statutory historical profit and loss to NHF historical statement of profit and loss

The NHF historical statement profit and loss has been derived from the NHF statutory statement of profit and loss adjusted to align the accounting for the loan receivable to the accounting policies applied by JKL as well as to reflect the tax liability borne by the member of NHF.

**Table A3.4a Reconciliation of NHF Statutory Historical Profit and Loss to NHF Historical Statement of Profit and Loss – 31 December 2017**

| 31 December 2017<br>USD '000 | US GAAP Statutory Historical results | Adjustment to align loan receivable accounting policy[1] | NHF Historical results | Adjustment to reflect tax payable by members of NHF[2] | NHF Pro-forma adjustment |
|---|---|---|---|---|---|
| Net income | - | 9,007 | 9,007 | - | 9,007 |
| Gross revenue | 38,186 | (38,186) | - | - | - |
| Discounts, other write downs and financing component unwind | (52,364) | 52,364 | - | - | - |
| Cost of goods sold | (12,623) | 12,623 | - | - | - |
| **Gross margin** | **(26,801)** | **35,808** | **9,007** | **-** | **9,007** |
| | | | | | |
| Other income | 29 | - | 29 | - | 29 |
| | | | | | |
| **Expenses** | | | | | |
| Employee, general, administration and other expenses | (5,352) | - | (5,352) | - | (5,352) |
| Business purchase expense | - | - | - | - | - |
| Finance costs | (5,963) | - | (5,963) | - | (5,963) |
| **Loss before income tax (expense)/benefit** | **(38,087)** | **35,808** | **(2,279)** | **-** | **(2,279)** |
| | | | | | |
| Income tax (expense)/benefit[2] | - | - | - | 638 | 638 |
| | | | | | |
| **Profit/(loss) after tax** | **(38,087)** | **35,808** | **(2,279)** | **638** | **(1,641)** |

Footnotes:

1. The statutory financial statements have been prepared in accordance with US GAAP, this adjustment has been calculated based on actuarial modelling of the NHF loan receivable to align the accounting for the loan receivable to the accounting policies applied by JKL.
2. As NHF is a Limited Liability Company, tax payable on its financial results is borne by its members. This adjustment has been included to reflect taxes that would have been payable by JKL, as NHF's member, on the NHF financial results at an effective tax rate of 28% as if the two companies had always been part of the same group.

**Table A3.4b Reconciliation of NHF Statutory Historical Profit and Loss to NHF Historical Statement of Profit and Loss – 31 December 2016**

| 31 December 2016 USD '000 | US GAAP Statutory Historical results | Adjustment to align loan receivable accounting policy[1] | NHF Historical results | Tax payable by members of NHF[2] | NHF Pro-forma adjustment |
|---|---|---|---|---|---|
| Net income | - | 19,479 | 19,479 | - | 19,479 |
| Gross revenue | 114,561 | (114,561) | - | - | - |
| Discounts, other write downs and financing component unwind | (45,468) | 45,468 | - | - | - |
| Cost of goods sold | (33,326) | 33,326 | - | - | - |
| **Gross margin** | **35,767** | **(16,288)** | **19,479** | **-** | **19,479** |
| | | | | | |
| **Expenses** | | | | | |
| Employee, general, administration and other expenses | (5,440) | - | (5,440) | - | (5,440) |
| Finance costs | (3,897) | - | (3,897) | - | (3,897) |
| **Profit/(loss) before income tax** | **26,430** | **(16,288)** | **10,142** | **-** | **10,142** |
| | | | | | |
| Income tax (expense)/benefit[2] | **-** | **-** | **-** | **(2,840)** | **(2,840)** |
| | | | | | |
| **Profit/(loss) after tax** | **26,430** | **(16,288)** | **10,142** | **(2,840)** | **7,302** |

Footnotes:

1. The statutory financial statements have been prepared in accordance with US GAAP, this adjustment has been calculated based on actuarial modelling of the NHF receivables to align the accounting for the loan receivable to the accounting policies applied by JKL.
2. As NHF is a Limited Liability Company, tax payable on its financial results is borne by its members. This adjustment has been included to reflect taxes that would have been payable by JKL, as NHF's member, on the NHF financial results at an effective tax rate of 28% as if the two companies had always been part of the same group.

## A4 Presentation of the Statement of Financial Position

### A4.1 Historical Statement of Financial Position and Pro-Forma Historical Statement of Financial Position

The Pro-Forma Historical Statement of Financial Position as at 31 December 2017 as set out in Table A4.1a is derived from the Historical Statement of Financial Position as at 31 December 2017, adjusted to reflect the impact of the acquisition of NHF and the proposed capital raising as if they had occurred as at 31 December 2017.

On completion of the capital and debt raising, the Company will utilise the proceeds of the capital raising to finance transaction costs and the payment of $2.5 million of notes to the Founders and the loan will be utilised to finance the payment of $26.5 million to Presidio. The balance of cash will be utilised for working capital requirements.

The Pro-Forma Historical Statement of Financial Position is provided for illustrative purposes only and is not represented as being necessarily indicative of JKL's view of its financial position upon Completion or as at a future date.

**Table A4.1a: Statutory Historical Statement of Financial Position and Pro-Forma Historical Statement of Financial Position**

| 31 December 2017<br>USD '000 | Historical Statement of Financial Position[1] | Pro-forma adjustment – debt and capital financing[2] | Pro-forma adjustment – acquisition of NHF[3] | Pro-forma adjustment – transaction costs[4] | Pro-forma Historical Statement of Financial Position |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents[5] | 1,471 | 41,598 | (25,414) | (2,735) | 14,920 |
| Trade and other receivables | 6,988 | - | 29,709 | - | 36,697 |
| Prepayments | 53 | - | - | - | 53 |
| Assets held as held for sale[6] | 11,788 | - | - | - | 11,788 |
| **Total current assets** | 20,300 | 41,598 | 4,295 | (2,735) | 63,458 |
| | | | | | |
| **Non-current assets** | | | | | |
| Trade and other receivables | 12,463 | - | 60,318 | - | 72,781 |
| Notes receivable | - | - | 219 | - | 219 |
| Property, plant and equipment, net of accumulated depreciation | 145 | - | 20 | - | 165 |
| Other assets | - | - | 167 | - | 167 |
| Goodwill and other intangibles[7] | 5,381 | - | 17,006 | - | 22,387 |
| Deferred tax | 4,922 | - | - | - | 4,922 |
| **Total non-current assets** | 22,911 | - | 77,730 | - | 100,641 |
| | | | | | |
| **Total assets** | 43,211 | 41,598 | 82,025 | (2,735) | 164,099 |
| | | | | | |
| **Liabilities** | | | | | |
| | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables[8] | (1,409) | - | (1,921) | - | (3,330) |
| Borrowings[9] | (3,852) | - | (11,000) | - | (14,852) |
| Liabilities associated with assets classified as held for sale | (2,356) | - | - | - | (2,356) |
| **Total current liabilities** | (7,617) | - | (12,921) | - | (20,538) |
| | | | | | |

| 31 December 2017<br>USD '000 | Historical Statement of Financial Position[1] | Pro-forma adjustment – debt and capital financing[2] | Pro-forma adjustment – acquisition of NHF[3] | Pro-forma adjustment – transaction costs[4] | Pro-forma Historical Statement of Financial Position |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Borrowings | (28,652) | (24,861) | (52,279) | - | (105,792) |
| **Total non-current liabilities** | (28,652) | (24,861) | (52,279) | - | (105,792) |
| | | | | | |
| **Total Liabilities** | (36,269) | (24,861) | (65,200) | - | (126,330) |
| | | | | | |
| **Net assets** | 6,942 | 16,737 | 16,825 | (2,735) | 37,769 |
| | | | | | |
| **Total equity** | 6,942 | 16,737 | 16,825 | (2,735) | 37,769 |
| | | | | | |

**Footnotes:**

1. The information was prepared by translating the financial position as presented in the JKL statement of financial position as at 31 December 2017 from AUD into USD. Items in the Statement of Financial Position were translated at AUD1:USD0.77, being the spot rate applicable as at 31 December 2017.
2. The pro-forma adjustment to reflect the financing of the acquisition of NHF comprises the following as if they occurred as at 31 December 2017:
   - Debt - $32.4 million (AUD42 million – excluding the vendor loan from Wattel and Siegel of AUD17.2 million) of cash raised representing $24.9 million of debt and $7.5 million of associated warrants classified as equity. The cash will be utilised to finance the cash payment to Presidio with the balance being utilised for working capital. Refer to Appendix 2 for further details on warrants.
3. Equity - $9.2 million (AUD12 million) of share capital will be issued (offset by AUD0.6m of equity raising costs) with the proceeds being utilised to finance the repayment of $1.0 million of the first tranche of promissory notes to the Founders and $0.7 million of other subordinated debt as well as and transaction costs incurred as a result of the acquisition. The pro-forma adjustment to reflect the acquisition of NHF comprises the following as if they occurred as at 31 December 2017:

   Payment of consideration comprising:
   - $26.5 million cash to Presidio
   - $13.25 million of deferred consideration in the form of a loan and associated warrants
   - $13.25 million JKL ordinary shares

   Payment of $1.0 million of notes payable to the Founders and $0.7 million of other subordinated debt immediately following the completion of the Transaction (refer to footnote 9 below for further detail)
   - Acquisition of net assets totaling $37.3 million which includes NHF net assets at 31 December 2017 of $27.9 million as presented in the US GAAP financial statements (which includes $2.7 million of acquired cash) adjusted for:
   - A reduction of $3.7 million to reflect the impact of adjusting the loan receivable to its fair value prepared using actuarial methods
   - The extinguishment of a $12.9 million promissory note payable to Presidio; and
   - The extinguishment of $0.2 million of a note payable to the Founders

   Goodwill arising on acquisition of $16.4 million

   Non-controlling interest in the NHF subsidiaries of $0.8 million

A calculation of the fair value of the NHF loan receivable using actuarial methods has been undertaken and reflected in the pro-forma adjustment. The fair values of other identifiable assets and liabilities acquired as presented have not been adjusted from the amounts included in the NHF financial statements with the exception of the inclusion of goodwill.

4. Transaction costs of $2.7 million related to the NHF acquisition have been reflected as an adjustment to cash and accumulated losses
5. The impact of the Transaction is a net $13.5 million increase in cash and cash equivalents. The increase comprises:
   - Proceeds of $41.6 million from raising debt and equity
   - Payment of $2.7 million in transaction costs
   - Payment of $26.5 million consideration offset by $2.7 million of cash acquired with NHF
   - Payment of $1.0 million of promissory notes payable to the Founders and $0.7 million of other subordinated debt.
6. Asset held for sale at 31 December 2017 comprise ten cases with a total value of $11.8 million. All ten cases will be reclassified as intangible assets. It was announced to the market on 17 July 2018 that five of these cases will be funded by Fortress. Of the remaining five cases 3 were settled in the first seven months of 2018, one requires no further funding and one will continue to be funded by JKL
7. Goodwill and intangibles includes goodwill on acquisition of NHF and unidentified intangibles. No formal purchase price allocation has been performed to identify and value intangible assets.

8. Trade and other payables includes employee benefits and other liabilities.
9. Borrowings comprises:
   - Current borrowings:
     - JKL Other borrowings - $3.9 million
     - NHF Notes payable - $4.5 million
     - NHF Promissory Notes (subordinated debt) - $6.5 million
   - Non-current borrowings:
     - JKL Loan Facility - $17.8 million
     - JKL Other borrowings - $35.6 million
     - JKL Loan from Founders - $10.6 million
     - NHF Notes payable (subordinated debt) - $2.5 million
     - NHF Other subordinated debt - $1.0 million
     - NHF Revolving line of credit - $38.3 million

   The terms of the acquisition include the immediate repayment of $1.0 million of a $10.0 million promissory note owing to the founders, and three additional payments every six months (being $4.0 million followed by two payments of $2.5 million each) following the completion of the transaction

## A5 Presentation of Historical Cash flows

### A5.1 Historical Cash flows and Pro-Forma Historical Cash flows

The Pro-Forma Historical Cash flows as set out in Tables A5.1 and A5.2b are derived from the Historical Cash flows of the Company, adjusted to reflect the impact of JKL acquiring NHF as if the two entities had always been part of the same group.

**Table A5.1a Reconciliation of Historical Cash flows to Pro-forma Historical Cash flows – 31 December 2017**

| 31 December 2017<br>USD '000 | Historical Cash Flows[1] | Pro-forma adjustment – acquisition of NHF[2] | Pro-forma adjustment – transaction costs[3] | Pro-forma Historical Result |
|---|---|---|---|---|
| | | | | |
| **Cash flows from operating activities** | **(12,049)** | **(3,511)** | **1,149** | **(14,411)** |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Payments for new joint venture capital invested | 673 | - | - | 673 |
| Payments for property, plant and equipment | (56) | (21) | - | (77) |
| Payment for other intangibles and litigation funding | (5,304) | - | - | (5,304) |
| Payment for acquisition of Macquarie Medico Legal | (154) | - | - | (154) |
| Interest on related party notes | - | (181) | - | (181) |
| | | | | |
| **Net cash outflow from investing activities** | **(4,841)** | **(202)** | **-** | **(5,043)** |
| | | | | |
| **Cash flows from financing activities** | | | - | |
| Proceeds from issue of shares net of share issue transaction costs | 1,854 | - | - | 1,854 |
| Proceeds from borrowings | 21,363 | 49,371 | - | 70,734 |
| Repayment of borrowings | (6,299) | (38,532) | - | (44,831) |
| Net movement in restricted cash | - | (5,223) | - | (5,223) |
| Net movement on distributions | **-** | (654) | - | (654) |
| | | | | |
| **Net cash inflow from financing activities** | **16,918** | **4,962** | **-** | **21,880** |
| | | | | |
| **Net decrease in cash and cash equivalents** | **28** | **1,249** | **1,149** | **2,426** |

**Footnotes:**

1. The Historical Cash Flows have been derived from the financial statements of JKL. Refer to table A5.2a for reconciliation of Historical Cash Flows to the statutory financial statements.
2. Pro-forma adjustment to reflect the statutory cash flows of NHF
3. Pro-forma to remove cash flow related to certain expenses which have been incurred but considered to be non-recurring costs as they relate to due diligence, consulting and legal fees associated with the acquisition of NHF and related capital raisings.

**Table A5.1b Reconciliation of Historical Cash flows to Pro-forma Historical Cash flows– 31 December 2016**

| 31 December 2016<br>USD '000 | Historical Cash Flows[1] | Pro-forma adjustment – acquisition of NHF[2] | Pro-forma Historical Result |
|---|---|---|---|
| | | | |
| **Cash flows from operating activities** | **(7,401)** | **(17,670)** | **(25,071)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for new joint venture capital invested | (1,791) | - | (1,791) |
| Payments for property, plant and equipment | (209) | - | (209) |
| Payment for other intangibles and litigation funding | (670) | - | (670) |
| Payment for acquisition of business | (10,991) | - | (10,991) |
| Interest on related party notes | - | 101 | 101 |
| | | | |
| Net cash outflow from investing activities | **(13,661)** | **101** | **(13,560)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | 18,331 | 64,828 | 83,159 |
| Repayment of borrowings | (3,309) | (38,410) | (41,719) |
| Net movement on distributions | **-** | (8,654) | (8,654) |
| | | | |
| **Net cash inflow from financing activities** | **15,022** | **17,764** | **32,786** |
| | | | |
| **Net decrease in cash and cash equivalents** | **(6,040)** | **195** | **(5,845)** |

**Footnotes:**

1. The Historical Cash Flows have been derived from the financial statements of JKL. Refer to table A5.2a for reconciliation of Historical Cash Flows to the statutory financial statements.
2. Pro-forma adjustment to reflect the statutory cash flows of NHF

## A5.2 Reconciliation of JustKapital statutory historical statements of cash flows to Historical Cash flows

The Historical Cash flows has been derived from the audited consolidated financial statements for the years 30 June 2016 and 30 June 2017 and the unaudited interim consolidated financial statements for the half years ended 31 December 2015, 31 December 2016 and 31 December 2017. Tables A5.2a and A5.2b show the reconciliation of the statutory financial statements to the Historical Cash flows.

**Table A5.2a Reconciliation of JustKapital Limited statutory historical statement of cash flows to Historical Cash flows – 31 December 2017**

| | Historical result for the year ended 30 June 2017[1] | Less: Interim result for the half year ended 31 December 2016[2] | Derived calendar year 31 December 2017 H1 result[3] | Add: Interim result for the half year ended 31 December 2017[4] | Derived calendar year 31 December 2017 result[5] | Derived calendar year 31 December 2017 result[6] |
|---|---|---|---|---|---|---|
| | AUD | AUD | AUD | AUD | AUD | USD |
| **Cash outflow from operating cash flow** | **(16,591)** | **(8,254)** | **(8,337)** | **(7,328)** | **(15,665)** | **(12,049)** |
| | | | | | | |
| Payments for new joint venture capital invested | (1,333) | (2,208) | **875** | - | **875** | **673** |
| Payments for property, plant and equipment | (197) | (149) | **(48)** | (25) | **(73)** | **(56)** |
| Payment for other intangibles and litigation funding | (4,605) | (895) | **(3,710)** | (3,186) | **(6,896)** | **(5,304)** |
| Payment for acquisition of business | (2,200) | (2,000) | **(200)** | - | **(200)** | **(154)** |
| **Net cash outflow from investing activities** | **(8,335)** | **(5,252)** | **(3,083)** | **(3,211)** | **(6,294)** | **(4,841)** |
| | | | | | | |
| Proceeds from issue of shares, net of share issue transaction costs | - | - | **-** | 2,411 | **2,411** | **1,854** |
| Proceeds from borrowings | 34,660 | 14,260 | **20,400** | 7,375 | **27,775** | **21,363** |
| Repayment of borrowings | (7,675) | (4,451) | **(3,224)** | (4,965) | **(8,189)** | **(6,299)** |
| **Net cash inflow from financing activities** | **26,985** | **9,809** | **17,176** | **4,821** | **21,997** | **16,918** |
| | | | | | | |
| **Net decrease in cash and cash equivalents** | **2,059** | **(3,697)** | **5,756** | **(5,718)** | **38** | **28** |

**Footnotes:**

1. Extracted from the JustKapital Limited 30 June 2017 Annual Report
2. Extracted from the JustKapital Limited 31 December 2016 Interim Financial Report
3. Derived cash flows for the period 1 January 2017 to 30 June 2017
4. Extracted from the JustKapital Limited 31 December 2017 Interim Financial Report
5. Derived cash flows for the period 1 January 2017 to 31 December 2017
6. Derived cash flows for the period 1 January 2017 to 31 December 2017 converted to USD. Profit and Loss accounts have been converted at AUD 1: USD0.7692 being the average rate for the year

**Table A5.2b Reconciliation of JustKapital Limited statutory historical statement of cash flows to Historical Cash flows – 31 December 2017 – 31 December 2016**

| | Historical result for the year ended 30 June 2016[1] | Less: Interim result for the half year ended 31 December 2015[2] | Derived calendar year 31 December 2016 H1 result[3] | Interim result for the half year ended 31 December 2016[4] | Derived calendar year 31 December 2016 result[5] | Derived calendar year 31 December 2016 result[6] |
|---|---|---|---|---|---|---|
| | **AUD** | **AUD** | **AUD** | **AUD** | **AUD** | **USD** |
| **Net cash outflow from operating cash flow** | **(2,874)** | **(1,178)** | **(1,696)** | **(8,260)** | **(9,956)** | **(7,401)** |
| | | | | | | |
| Payments for new joint venture capital invested | (201) | - | **(201)** | (2,208) | **(2,409)** | **(1,791)** |
| Payments for property, plant and equipment | (142) | (10) | **(132)** | (149) | **(281)** | **(209)** |
| Payment for other intangibles and litigation funding | (124) | (119) | **(5)** | (895) | **(900)** | **(670)** |
| Payment for acquisition of business | (12,785) | - | **(12,785)** | (2,000) | **(14,785)** | **(10,991)** |
| **Net cash outflow from investing activities** | **(13,252)** | **(129)** | **(13,123)** | **(5,252)** | **(18,375)** | **(13,661)** |
| | | | | | | |
| Proceeds from borrowings | 10,399 | - | **10,399** | 14,260 | **24,659** | **18,331** |
| Repayment of borrowings | - | - | **-** | (4,451) | **(4,451)** | **(3,309)** |
| **Net cash inflow from financing activities** | **10,399** | **-** | **10,399** | **9,809** | **20,208** | **15,022** |
| | | | | | | |
| **Net decrease in cash and cash equivalents** | **(5,727)** | **(1,307)** | **(4,420)** | **(3,703)** | **(8,123)** | **(6,040)** |

**Footnotes:**

1. Extracted from the JustKapital Limited 30 June 2016 Annual Report
2. Extracted from the JustKapital Limited 31 December 2015 Interim Financial Report
3. Derived cash flows for the period 1 January 2016 to 30 June 2016
4. Extracted from the JustKapital Limited 31 December 2016 Interim Financial Report
5. Derived cash flows for the period 1 January 2016 to 31 December 2016
6. Derived cash flows for the period 1 January 2016 to 31 December 2016 converted to USD. Profit and Loss accounts have been converted at AUD 1: USD0.7434 being the average rate for the year

## A6 Significant accounting policies

The principal accounting policies adopted in the preparation of the JKL statutory financial statements utilised to derive the Historical Financial Information are set out below.

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of JKL as at 31 December 2017 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which JKL ('the Group') has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non- controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

**Foreign currency transactions**

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

**Transactions and balances**

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

Differences arising on settlement or translation of monetary items are recognised in profit or loss. 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 the gain or loss on the 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 are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

**Revenue recognition**

**Revenue**

Revenue is measured at the fair value of the gross consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of Group’s activities. The amount of revenue is not considered to be reliably measurable until all material contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

For the revenue recognition policy of litigation contracts, refer to 'intangible assets' accounting policy below.

**Interest**

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

**Income tax**

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

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

When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

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

**Current and non-current classification**

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

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

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

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

**Cash and cash equivalents**

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

**Financial instruments – financial assets**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*Loan receivables at fair value through profit or loss*

*Initial recognition and measurement*

The Group's financial assets at fair value through profit or loss is solely relating to the loan receivables arising from its funding operations. The Group's loan receivables from its funding operations are classified, at initial recognition, as financial assets at fair value through profit or loss. The determination is made at initial recognition based on the Group's business model for managing its financial instruments and the non-contractual cash flow characteristics of its instruments.

The Group's financial asset at fair value through profit or loss is recognised initially at fair value. The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). In the case of a legal disbursement funding arrangement, the fair value of the loan receivable at initial recognition may differ from the transaction price. The fair value of the financial asset represents the invoice amount (where the final amount to be received by the Group is subject to change and conditional upon the outcome of decisions made by the relevant Court or the Insurer), adjusted for such factors as time value of money, discounts and write offs, and credit risk. The transaction price of the financial asset is the amount of cash paid to fund the legal disbursement costs. No active market exists for these loans. The difference between the fair value and the transaction price (also known as day 1 margin) is deferred and the Group recognises the deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset.

*Subsequent measurement*

Loan receivables are carried in the statement of financial position at fair value, with changes in fair value presented in the statement of profit or loss as net gains or losses on loan receivables at fair value. The net gains or losses are calculated based on actuarial assumptions including information on changes to actual and expected write offs, discounts and collections of loan receivables, as well as interest margin, taking into account the time value of money, credit risk, and the amortisation of day 1 margins. The deferred day 1 margin is recognised in the profit or loss on a systematic basis over the term of the arrangement using actuarial methodologies. It is based on the profile of cash collections and the subsequent weighted average calculation of these collections applied to the recognition of the day 1 margin.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when the contractual rights to receive cash flows from the loan receivables have expired.

**Other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

**Joint operations**

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the relevant Accounting Standard applicable to the particular assets, liabilities, revenues and expenses.

**Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Plant and equipment 3-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

**Leases**

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

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits. Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

**Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

**Goodwill**

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

**Website**

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of 3 years.

**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. The carrying value of Litigation contracts in progress includes the capitalisation of external costs of funding the litigation, such as solicitors' fees, counsels' fees and experts' fees, and the capitalisation of certain directly attributable internal costs of managing the litigation, such as certain wages and other out of pocket expenses. Litigation contracts in progress are not amortised as the assets are not available-for-use until the determination of a successful judgement or settlement, at which point the assets are realised, and revenue is recognised.

The following specific asset recognition rules have been applied to Litigation contracts in progress:

- Actions still outstanding: When litigation is outstanding and pending a determination, Litigation contracts in progress are carried at cost. Subsequent expenditure is capitalised when it meets all of the following criteria:
- Demonstration of ability of the Group to complete the litigation so that the asset will be available-for-use and the benefits embodied in the asset will be realised;
    - Demonstration that the asset will generate future economic benefits;
    - Demonstration that the Group intends to complete the litigation;
    - Demonstration of the availability of adequate technical, financial and other resources to complete the litigation; and
    - Ability to measure reliably the expenditure attributable to the asset during the Litigation contract in progress.
- Successful judgements: Where the litigation has been determined in favour of the Group or a positive settlement has been agreed, this constitutes a derecognition of the intangible asset and accordingly a gain or loss is recognised in profit or loss. Any future costs relating to the defence of an appeal by the defendant are expensed as incurred.
- Unsuccessful judgement: Where the litigation is unsuccessful at trial, this is a trigger for impairment of the intangible asset and the asset is written down to its recoverable amount. If the claimant, having been unsuccessful at trial, appeals against the judgement, then future costs incurred by the Group on appeal are expensed as incurred.

**Impairment of non-financial assets**

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

**Trade and other payables**

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

**Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Convertible bonds are redeemable at the discretion of the Group and are classified as a liability in the statement of financial position due to the operability of the convertible bond's anti-dilution clauses. As the convertible bonds include a conversion feature the convertible bonds are considered to represent a liability with an equity conversion option derivative. The conversion feature has been fair valued separately and on initial recognition and deducted from the value of the convertible bonds. The derivative is subsequently measured at fair value at each reporting date and any movement in fair value is accounted for in profit or loss. The convertible bonds liability is recorded at amortised cost and is accreted to the face value of the convertible bonds over the term of the convertible bond.

**Finance costs**

All other finance costs are expensed in the period in which they are incurred.

**Provisions**

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

**Employee benefits**

**Short-term employee benefits**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

**Other long-term employee benefits**

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

**Defined contribution superannuation expense**

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

**Share-based payments**

Equity-settled share-based compensation benefits are provided to employees and directors.

Equity-settled transactions are awards of shares, or options over shares, which are provided to employees and directors in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, at a minimum, an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

**Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement. For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

**Issued capital**

Ordinary shares are classified as equity.

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

**Business combinations**

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

**Earnings per share**

**Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to the owners of JKL, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

**Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**Goods and Services Tax ('GST') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

# APPENDIX 2 - WARRANT TERMS

## SUMMARY OF TERMS OF WARRANTS

### Entitlement

Each Warrant will entitle the holder to subscribe for one Share.

All Shares issued upon the exercise of the Warrants rank equally in all respects with the Company's then existing Shares.

### Exercise Price

Each Warrant entitles the Warrantholder to acquire one fully paid ordinary share upon payment to the Company of A$0.14 per Warrant (**Exercise Price**).

### Notice of exercise

The Warrants may be exercised at any time prior to four years from their issue date (**Expiry Date**) in whole or in part and on any number of occasions, but in multiples of 100,000 (except if the Warrantholder holds less than 100,000 Warrants, in which case the Warrantholder must exercise all of the Warrants held by the Warrantholder at once).

The Warrants are exercised by completing and delivering a duly completed form of notice of exercise to the Company and the holding statement in respect of the Warrants. The Exercise Amount must be paid to the Company's account within 4 business days following the delivery of the notice of exercise.

The right to exercise a Warrant lapses if it is not exercised on or before the Expiry Date.

### Issue of Shares

Immediately after receipt by the Company of a valid notice of exercise and no later than three business days thereafter, the Company must:

- issue the number of Shares to which the Warrantholder is entitled and enter the Warrantholder into the Company's share register; and
- deliver to the Warrantholder a holding statement showing the Warrantholder as the holder of the relevant number of Shares;

### Quotation of Warrants and Shares on exercise

The Warrants will not be quoted on ASX.

The Company must apply for official quotation of the Shares issued upon exercise of Warrants as soon as practicable after receipt of the notice of exercise and take all necessary steps to ensure the Shares are freely transferable.

### Transfer of Warrants

The Warrants are transferable. Where WHSP holds Warrants, the Warrants may be transferred only with the prior written consent of WHSP.

### Participation rights or entitlements

There are no participating rights or entitlements inherent in the Warrants and Warrantholders are not entitled to participate in new issues of securities offered to shareholders during the currency of the Warrants.

However, the Company must give notice to the Warrantholders of any new issue at least 10 business days before the record date for determining entitlements to the issue in accordance with the Listing Rules so as to give Warrantholders the opportunity to exercise their Warrants before the date for determining entitlements to participate in any issue.

### Voting and information rights

The Company must provide Warrantholders with all information and notices sent by it to its Shareholders at the same time those notices and information are provided to Shareholders. Warrantholders may attend general meetings of the

Company but the Warrants do not carry a right to vote at general meetings, unless provided for by the Corporations Act.

If the Company wants to pay a dividend or make a distribution, the Company must ensure that the record date to participate in any such dividend or distribution is not a date earlier than 14 business days after the announcement by the Company of such dividend or distribution so as to give the Warrantholders sufficient time to ensure they are able to exercise their Warrants and be issued with Shares to be eligible to receive the proposed dividend or distribution.

### Re-organisation of share capital

If there is a re-organisation (including reconstruction, consolidation, subdivision, reduction or return) of the issued capital of the Company, the Warrants will be re-organised to the extent necessary to comply with the Listing Rules applying to a re-organisation of capital at the time of the re-organisation.

### Pro rata issues

If the Company makes a pro rata issue of Shares to Shareholders, the Exercise Price will be reduced in accordance with the formula set out in the ASX Listing Rules.

### Bonus issues

If the Company makes a bonus issue to Shareholders, the number of Shares over which a Warrant is exercisable will be increased by the number of Shares which the Warrantholder would have received if the Warrants had been exercised before the record date for the bonus issue.

# APPENDIX 3 – KEY TERMS OF THE TRANSACTION DOCUMENTS

## Part 1 – Summary of key terms of Management Securities Purchase Agreement

| Clause | Summary |
| --- | --- |
| The Securities Purchase Agreement between NHF, Wattel, Siegel and JustKapital (**Management Agreement**) governs the purchase of certain units by JustKapital from Siegel and Wattel (together the **Management Sellers**). | |
| **Purchase and sale of units (section 1.1)** | • JustKapital is to purchase all common units in NHF. On the closing under the Management Agreement and the Presidio Agreement, JustKapital is to own 100% of NHF.<br>• The purchase price is US$10.60 per unit. The aggregate purchase price payable to the Management Sellers is US$26,500,000. |
| **Closing payments (section 1.2)** | • JustKapital must issue to:<br>○ **Wattel**, 107,548,701 JustKapital ordinary shares and a vendor loan in the amount of A$8,600,000 for a term of four years and bearing an interest rate of 13% per annum;<br>○ **Siegel**, 107,548,702 JustKapital ordinary shares and a vendor loan in the amount of A$8,600,000 for a term of four years and bearing an interest rate of 13% per annum; and<br>○ the **Management Sellers**, warrants to purchase an aggregate of 122,863,636 JustKapital ordinary shares.<br>• The Management Sellers must transfer to the Purchaser an aggregate of 2,500,002 common units in NHF.<br>• NHF must pay the Management Sellers' transaction expenses and the aggregate amount of indebtedness of the NHF group of companies (**Group Members**) as of the closing. |
| **Closing deliverables (section 1.4)** | • At closing, NHF, or the Management Sellers, as applicable, must deliver to JustKapital:<br>○ NHF's Limited Liability Agreement (**LLC Agreement**);<br>○ the employment agreements between NHF and each of Wattel and Siegel;<br>○ certified copies of non-interest bearing subordinated notes in the amount of US$4,500,000 for each of Siegel and Wattel; and<br>○ payment of US$500,000 to each of Wattel and Siegel (subject to the consent of Atalaya Special Opportunities Fund VI LP (**Atalaya**));<br>○ a discharge and release by the Sellers of all obligations of NHF or any Group Member;<br>○ a voluntary escrow deed governing ownership of the shares and warrants issued to the Management Sellers; and<br>○ a certificate evidencing that credit agreement between an NHF affiliate, Midtown Madison Management LLC and Atalaya (**Existing Credit Agreement**) remains in full force and effect. |
| **Warranties with respect to NHF (section 2)** | Subject to the disclosure schedule, the Management Sellers (jointly and severally) and NHF warrant to JustKapital that:<br>• after giving effect to the debt conversion but prior to the equity conversion the capital of NHF consists of:<br>○ 1,500,000 Series A Units;<br>○ 210,526 Series B Units; and<br>○ 2,500,002 Common Units; |

| Clause | Summary |
| --- | --- |
| | • after giving effect to the equity conversion the capital of NHF will consist of:<br>  o 210,526 Series B Units; and<br>  o 4,000,002 Common Units;<br>• there is no litigation pending or threatened against any Group Member;<br>• each Group Member is, and has been, in compliance with all laws, including those laws applicable to medical services and health regulations;<br>• there are no contracts between NHF (or its subsidiaries) with any Management Seller (or their affiliates);<br>• no Group Member has experienced a change that will have a materially adverse effect on the business; and<br>• NHF takes all reasonable measures to ensure it has title or a perfected security interest in all receivables it finances. |
| **Warranties of the Management Sellers (section 3)** | • Each Management Seller warrants, severally and not jointly, to JustKapital that:<br>  o it owns (full and clear of all liens) and has full authority to sell the agreed number of units in NHF and JustKapital will acquire valid and marketable title to all such units; and<br>  o any unrelated business of which Wattel and Siegel are involved with will not compete with the business of NHF or prevent Wattel and Siegel's ability to perform their duties to NHF. Wattel and Siegel must first offer any opportunities, including business activities whose primary purpose involves the business of NHF, to NHF before themselves exploiting such opportunity. |
| **Non-Competition (section 5.6)** | • Each Management Seller agrees not to directly or indirectly, without the prior written consent of JustKapital, for three years following the closing date:<br>  o become employed by, engage in business with or become a director, manager, member, stockholder, partner, owner, consultant or agent of any business that competes with NHF anywhere in the United States of America, Canada, Australia or Europe, where NHF does business; and<br>  o contact, communicate, solicit or transact any business with any client or prospective client of NHF or its affiliates. |
| **Conditions Precedent (Preamble and section 6)** | • JustKapital, its subsidiaries and NHF will enter into one or more loans in the aggregate principal amount of at least A$42,000,000 (**Credit Agreement**).<br>• Closing of the Management Agreement is subject to the following conditions:<br>  o obtaining all government approvals; and<br>  o no legal restraints or injunctions prevent the acquisition.<br>• The obligation of JustKapital to pay for the units is subject to:<br>  o the warranties of NHF being true and correct as of the closing and NHF providing JustKapital with a certificate of no material adverse effect;<br>  o the warranties of each Management Seller being true and correct as of the closing and each Management Seller providing JustKapital with a certificate of no material adverse effect;<br>  o each Management Seller and NHF have performed all obligations required by the Management Agreement and have provided a certificate to that effect to JK Purchaser; |

<table>
<tr><th>Clause</th><th>Summary</th></tr>
<tr><td></td><td>
<ul>
<li>
<ul>
<li>each transaction document NHF or any Management Seller is party to has been executed and delivered, the Presidio Agreement has been executed and delivered and the Presidio Agreement is to be consummated concurrently with the closing of the Management Agreement;</li>
<li>JustKapital has completed a due diligence review of the NHF business and is satisfied in its sole discretion with such review;</li>
<li>the Existing Credit Agreement remains in full force and effect and JustKapital has obtained both debt and equity financing that it deems necessary to complete the transactions contemplated by the Presidio Agreement and the Management Agreement and to fund the working capital requirements of NHF following closing;</li>
<li>JustKapital shareholder approval has been obtained for ASX Listing Rule 11.1.2; and</li>
<li>the holders of related party notes have exchanged notes for payment of US$700,000 from JustKapital and a new subordinated promissory note in the amount of US$1 million on terms acceptable to JustKapital.</li>
</ul>
</li>
<li>The obligation of each Management Seller to sell the units is subject to:
<ul>
<li>the warranties of JustKapital being true and correct as of the closing date and JustKapital providing the Management Sellers with a certificate of no material adverse effect;</li>
<li>JustKapital has performed all obligations and provided a certificate to that effect to the Management Sellers;</li>
<li>each transaction agreement to which JustKapital is a party has been executed and delivered by JustKapital; and</li>
<li>the subordination of JustKapital or its subsidiaries' obligations to the Management Sellers to NHF's obligations under the Credit Agreement is on terms reasonably acceptable to the Management Sellers;</li>
</ul>
</li>
<li>The transactions contemplated by the Presidio Agreement is consummated concurrently with the transactions contemplated by the Management Agreement.</li>
</ul>
</td></tr>
<tr><td>Termination (section 7)</td><td>
The Management Agreement may be terminated:
<ul>
<li>by mutual written consent of the Management Sellers and JustKapital;</li>
<li>by either the Management Sellers or JustKapital if:
<ul>
<li>closing does not occur on or prior to 30 September 2018; or</li>
<li>the transaction is restrained or prohibited by a non-appealable injunction or restraint;</li>
</ul>
</li>
<li>by the Management Sellers or JustKapital if the other party breaches or fails to perform any of its covenants in the Management Agreement, that breach or failure would give rise to a failure of certain condition precedents and the breach or failure is not reasonably capable of being cured within 30 days after receiving written notice from the other party or by 30 September 2018.</li>
</ul>
</td></tr>
<tr><td>Governing Law (section 9.2)</td><td>
<ul>
<li>The Management Agreement is governed by the laws of the State of Delaware.</li>
</ul>
</td></tr>
</table>

## Part 2 – Summary of key terms of the Presidio Agreement

<table>
<tr><th>Clause</th><th>Summary</th></tr>
<tr><td colspan="2">The Purchase and Sale Agreement (Presidio Agreement) governs the purchase and sale of units between NHF, JustKapital NHF US Holdings, LLC (JK Purchaser), Presidio Investors NHF, LP (Presidio I), Presidio Investors NHF 2, LP (Presidio II) (collectively, the Presidio Sellers and each a Presidio Seller).</td></tr>
<tr><td>Purchase price<br>(section 1.1)</td><td>• JK Purchaser is to purchase 1,500,000 common units in NHF<br>• The purchase price payable by JK Purchaser to the Presidio Sellers is US$17.6667 per common unit. The aggregate purchase price payable to the Presidio Sellers is US$26,500,000.</td></tr>
<tr><td>Warranties of the Presidio Sellers<br>(section 2)</td><td>Each Presidio Seller warrants to JK Purchaser that<br>• at the date of the Presidio Agreement:<br>o Presidio II owns 208,969 Series A Units, and immediately prior to closing Presidio II will own 208,969 Common Units; and<br>o Presidio I is the owner of a secured convertible promissory note dated 3 June 2016, in aggregate principal amount equal to $12,910,310. Immediately prior to closing, Presidio I will own 1,291,031 Common Units;<br>• upon the sale of the Common Units, each Presidio Seller will no longer have any equity or debt ownership of or interest in NHF; and<br>• there is no litigation pending or threatened that would affect or impair the legal right and ability of the Presidio Sellers to transfer the Presidio Common Units.</td></tr>
<tr><td>Warranties of JK Purchaser<br>(section 3)</td><td>JK Purchaser warrants to each Presidio Seller that it is not obligated for the payment of any fees or expenses of any investment banker, broker, finder or similar party in connection with the origin, negotiation or execution of this Agreement or any transaction contemplated by it.</td></tr>
<tr><td>Warranties of NHF<br>(section 4)</td><td>• NHF warrants to each Presidio Seller and JK Purchaser that the Series A Units owned by Presidio II were validly issued, fully paid and non-assessable and are free of restrictions on transfer other than pursuant the LLC Agreement and applicable state and federal securities laws.<br>• NHF warrants to JK Purchaser only that all of its representations and warranties in Section 2 of the Management Agreement are accurate and complete, and will be incorporated in the Presidio Agreement as if repeated.</td></tr>
<tr><td>Tax matters<br>(section 5.2)</td><td>• The Presidio Sellers agree to indemnify, the Group Members and the JK Purchaser against all damages resulting from:<br>o any tax liability, whether accrued, assessed or currently due of any Group Member with respect to any pre-closing tax period (but not for periods before 3 June 2016) and post-closing tax period;<br>o taxes of the Presidio Sellers including, without limitation, capital gains taxes;<br>o certain taxes for any Group Member; and<br>o taxes imposed by third parties with respect to which any Group Member has an obligation to indemnify that third party under a transaction on or prior to the closing date.</td></tr>
<tr><td>Presidio Sellers release<br>(section 5.5)</td><td>• Effective upon Closing, each Presidio Seller releases NHF and each of its representatives, predecessors, successors, assigns, subsidiaries, parent companies, agents, affiliates, employees, insurers, sureties, directors, officers and attorneys from any claims the Presidio Seller may have against such parties.</td></tr>
</table>

| Clause | Summary |
| --- | --- |
| **NHF release (section 5.6)** | • Effective upon Closing, NHF releases each Presidio Seller and their representatives, predecessors, successors, assigns, subsidiaries, parent companies, agents, affiliates, employees, insurers, sureties, directors, officers and attorneys from any claims NHF may have against such parties. |
| **Management and Presidio Sellers' mutual release (section 5.7)** | • The Presidio Sellers and Management Sellers will execute a settlement agreement and mutual release. |
| **Conditions Precedent (section 6)** | • Closing of the Presidio Agreement is subject to the following conditions:<br>o obtaining all government approvals; and<br>o that there are no legal restraints or injunctions preventing the Transaction.<br>• The obligation of JK Purchaser to pay for the Common Units is subject to:<br>o the representations and warranties of NHF being true and correct as of the closing date and NHF providing JK Purchaser with a certificate of no material adverse effect;<br>o the representations and warranties of each Presidio Seller being true and correct as of the closing date and each Presidio Seller providing JK Purchaser with a certificate of no material adverse effect;<br>o each Presidio Seller and NHF have performed all obligations required by the Presidio Agreement and have provided a certificate to that effect to JK Purchaser;<br>o each transaction document NHF or any Presidio Seller is a party to has been executed and delivered, the Presidio Agreement has been executed and delivered and the Management Agreement is to be consummated concurrently with the closing of the Presidio Agreement;<br>o JK Purchaser has obtained both debt and equity financing that it deems necessary to complete the transactions contemplated by the Presidio Agreement, the Management Agreement and the other transaction agreements and to fund the working capital requirements of NHF and each Group Member; and<br>o JKL shareholder approval has been obtained for ASX Listing Rule 11.1.2.<br>• The obligation of each Presidio Seller to sell the Common Units is subject to:<br>o the representations and warranties of JK Purchaser being true and correct as of the closing date and JK Purchaser providing the Presidio Sellers with a certificate of no material adverse effect;<br>o JK Purchaser has performed all obligations and provided a certificate to that effect to the Presidio Sellers; and<br>o each transaction agreement that JK Purchaser is a party to has been executed and delivered by JK Purchaser. |
| **Closing deliveries (section 7)** | • The following actions will be taken at the closing, each conditioned on completion of all the others and deemed to be simultaneously taken:<br>o JK Purchaser delivers the purchase price of US$26,500,000;<br>o JK Purchaser obtains and delivers a fully paid directors' and officers' liability tail insurance policy for a period of six years following the closing; |

| Clause | Summary |
| --- | --- |
| | ○ NHF delivers to the Presidio Sellers all required consents and waivers under the LLC Agreement;<br>○ the Presidio Sellers deliver to NHF executed resignations of John Barber, Victor Masaya, Josef Auboeck, Karl Schade and Barry Rudolph; and<br>○ the Presidio Sellers deliver to JK Purchaser such forms of assignment as reasonably requested by JK Purchaser to evidence the transfer of the common units from the Presidio Sellers to JK Purchaser. |
| **Termination (section 8.1)** | The Presidio Agreement may be terminated:<br>• by mutual written consent of the Presidio Sellers and JK Purchaser if:<br>○ closing does not occur on or prior to 30 September 2018; or<br>○ the transaction is restrained or prohibited by a non-appealable injunction or restraint;<br>• by the Presidio Sellers:<br>○ if JK Purchaser breaches or fails to perform any of its covenants or agreements contained in the Presidio Agreement, the breach or failure would give rise to the failure of any condition precedent and the breach or failure is not reasonably capable of being cured within 30 days after receiving written notice from the other party; or<br>○ immediately if the Closing has not occurred on or before 30 September 2018;<br>• by JK Purchaser:<br>○ if any Presidio Seller or NHF breaches or fails to perform any of its covenants or agreements contained in the Presidio Agreement, the breach or failure would give rise to the failure of certain condition precedents and the breach or failure is not reasonably capable of being cured within 30 days after receiving written notice from the other party; or<br>○ immediately, if the transaction agreements are not executed or JK Purchaser has not obtained the debt and equity financing it deems necessary to complete the transactions or if JK Purchaser does not obtain the requisite shareholder approval. |
| **Governing Law (section 10.5)** | **The Presidio Agreement is governed by the laws of the State of Delaware.** |

### Part 3 – Summary of key terms of Management Term Facility

| Clause | Summary |
|---|---|
| JustKapital will enter into a Term Facility Agreement (Management Term Facility) with each of David Wattel and Mark Siegel (each, a Lender) on identical terms. Under the Management Term Facility, the Lender will make available to JustKapital an A$8,600,000 term loan facility. | |
| **Loan**<br><br>**(section 3)** | • The Lender will make a loan available to JustKapital upon written request by JustKapital prior to or concurrent with the Closing Date (which is the date specified in the Management Agreement and Presidio Agreement), but subject to the closing of the acquisition of NHF in accordance with the terms of the Management Agreement and Presidio Agreement. |
| **Repayment**<br><br>**(section 4 and 5)** | • JustKapital must repay the Management Term Facility in full on the date that is four years from the Closing Date, together with accrued interest and all other amounts accrued or outstanding.<br>• JustKapital may, by giving to the Lender not less than 10 Business Days' prior notice, prepay the whole or any part of the Loan (if in part, by a minimum amount of A$1,000,000).<br>• JustKapital may only prepay the whole or any part of the Loan prior to the date of the third anniversary of the Closing Date with the prior written consent of the Lender. |
| **Interest**<br><br>**(section 6)** | • Interest is payable at the rate of 13% per annum and JustKapital must pay accrued interest on the Loan on the last day of each Interest Period, which is the three months ending on an Interest Payment Date or such shorter period agreed between the Lender and JustKapital.<br>• If JustKapital fails to pay any amount payable by it on its due date, interest shall accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate of 16%, which is the sum of 3% and the rate which would have been payable if the overdue amount had, during the period of non payment, constituted a Loan for successive Interest Periods, each of a duration selected by the Lender (acting reasonably). |
| **Indemnities**<br><br>**(section 9)** | • JustKapital must, within 3 business days of demand, indemnify the Lender against any cost, expense, loss or liability (including legal fees) incurred by the Lender as a result of:<br>○ the occurrence of any Event of Default;<br>○ any information produced or approved by the Company under or in connection with the Finance Documents or the transactions they contemplate being or being alleged to be misleading or deceptive in any respect;<br>○ any enquiry, investigation, subpoena (or similar order) or litigation with respect to the Company or with respect to the transactions contemplated or financed under this Agreement;<br>○ a failure by the Company to pay any amount due under a Finance Document on its due date; or<br>○ the Loan not being prepaid in accordance with a notice of prepayment given by the Company. |
| **Costs and expenses**<br><br>**(section 11)** | • JustKapital must, within three business days of demand, pay to each Lender the amount of all costs and expenses (including legal fees) incurred by the Lender in connection with the enforcement of, or preservation of any rights under any Finance Document. |
| **JustKapital representations**<br><br>**(section 12)** | JustKapital makes the following representations and warranties (among others):<br>• no Event of Default is continuing and no other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its subsidiaries or to which its or its subsidiaries' assets are subject which might have a Material Adverse Effect;<br>• its payment obligations under the Finance Documents rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally; |

| Clause | Summary |
| --- | --- |
| | • JustKapital has no material Financial Indebtedness outstanding other than Permitted Financial Indebtedness; |
| **General Undertakings**<br><br>**(section 14)** | JustKapital gives a number of general undertakings which remain in force from the date of the Management Term Facility for so long as any amount is outstanding under the Finance Documents.<br><br>Among other things, JustKapital:<br><br>• shall not enter into a transaction or series of transactions to sell, lease, transfer or otherwise dispose of any asset, except where that disposal is made in the ordinary course of trading, in exchange for assets comparable or superior as to type, of worn out or obsolete assets or where the higher of the market value or consideration receivable does not exceed A$250,000 in any financial year;<br><br>• shall not acquire a company or any shares or securities or a business or undertaking or incorporate a company, except for a Permitted Acquisition which is:<br><br>    o the acquisition of NHF;<br><br>    o the incorporation of a company which on incorporation becomes a member of the Group, but only if that company is incorporated in Australia with limited liability; or<br><br>    o an acquisition for cash consideration, of (A) the issued share capital of a limited liability company or (B) a business or undertaking carried on as a going concern, but only with the prior written consent of the Lender which must not to be unreasonably withheld;<br><br>• shall not enter into any amalgamation, demerger, merger or corporate reconstruction;<br><br>• must ensure prompt payment of all amounts payable to the relevant parties under the Management Agreement and Presidio Agreement as and when they become due; and<br><br>• must use all reasonable endeavours to replace or extend any material client service contracts in relation to the business of the NHF Group. |
| **Set-off**<br><br>**(clause 17)** | • If a Default is continuing the Lender may set off any matured obligation due from the Company under the Finance Documents (to the extent beneficially owned by the Lender) against any obligation owed by the Lender to that the Company, regardless of the place of payment, booking branch or currency of either obligation.<br><br>• If the Lender is also a Warrantholder under the Warrant Deed Poll exercises its Warrant Exercise Rights in accordance with the Warrant Deed Poll, the aggregate Warrant Exercise Price for the Shares being subscribed for may, at the option of such Warrantholder and upon written notice to the Company, first be settled by setting off an equivalent amount owed by the Company to such Lender in respect of outstanding principal and interest under the Finance Documents. |
| **Governing Law**<br><br>**(clause 25)** | • The Management Term Facility is governed by the law of New South Wales. |

## Part 4 – Summary of key terms of the Secured Acquisition Facility

| Clause | Summary |
| --- | --- |
| The Secured Acquisition Facility (**Facility**) comprises facilities between JustKapital entities as the Guarantors, JustKapital and Washington H. Soul Pattinson and Company Limited and others as the Lenders, subsidiaries of Equity Trustees Limited (as facility agent and security trustee). Under the Facility, the Lenders will make available to JustKapital an Australian dollar term loan facility in an aggregate amount equal to A$42 million. | |
| **Purpose**<br><br>**(section 3.1)** | • JustKapital must apply all amounts borrowed by it under the Facility towards the acquisition by JustKapital of NHF on terms acceptable to the Agent. |
| **Utilisation**<br><br>**(section 5)** | • JustKapital may utilise the Facility by delivery of a Utilisation Request to the Agent not later than 10am five business days prior to the proposed date of Utilisation.<br>• The amount of a proposed Loan must be a minimum of A$1,000,000 or, if less, aggregate at that time of each Lender's available commitment. |
| **Conditions of utilisation**<br><br>**(section 4)** | • The first Utilisation Request cannot be delivered until the Agent has received, among other condition precedent material, certain company documents from JustKapital, or a Guarantor (each, an **Original Obligor** or **Obligor**), including a certificate confirming that borrowing or guaranteeing would not cause any borrowing, guaranteeing or similar limit binding on the Original Obligor to be exceeded.<br>• The Lender will only make a Loan available to JustKapital if:<br>  ○ no Default or Review Event continuing or would result from the proposed Loan; and<br>  ○ the representations to be made by each Obligor are correct and not misleading. |
| **Repayment and pre-payment of Loans**<br><br>**(section 6 and 7)** | • JustKapital must repay the Loan on the date that is four years after the date of first Utilisation together with accrued interest.<br>• JustKapital may, with prior notice to the Agent, cancel whole or any part of the Available Commitment under the Facility (by a minimum amount of A$1,000,000).<br>• JustKapital may, by giving to the Agent not less than 10 Business Days' prior notice, prepay the whole or any part of the Loan (if in part, by a minimum amount of A$1,000,000).<br>• JustKapital may only prepay the whole or any part of the Loan prior to the date of the third anniversary of first Utilisation with the prior written consent of the Majority Lenders. |
| **Interest**<br><br>**(section 8)** | • Interest at the rate of 13% per annum is payable on the last day of each Interest Period.<br>• If an Obligor fails to pay any amount payable by it on its due date, interest shall accrue on the overdue amount from the due date up to the date of actual payment at a rate which is the sum of 3 per cent and the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan for successive Interest Periods, each of a duration selected by the Agent. |
| | • Within three business days of a demand by the Agent, Security Trustee or a Lender (each, a **Finance Party**), JustKapital must pay to the relevant party the party's break costs attributable to all or part of a Loan or Unpaid Sum paid by JustKapital on a day other than the last day of an Interest Period for that Loan or Unpaid Sum. "Break costs" is (broadly) an amount payable in lieu of interest which would otherwise have been paid. |
| **Fees** | • JustKapital must pay the Lender any agreed fees. |

| Clause | Summary |
|---|---|
| **(section 10)** | |
| **Indemnities**<br><br>**(sections 12 and 13)** | • Each Obligor indemnifies the each Finance Party for the currency conversion of a sum due by JustKapital under the Finance Documents;<br><br>• JustKapital agrees to indemnify each Finance Party and its affiliate for increased costs caused by the introduction of or any change in any law or regulation or compliance with same, incurred or suffered by a Finance Party or its affiliate to the extent it is attributable to entry into, or performing its obligations under the Finance Documents.<br><br>• JustKapital indemnifies each Finance Party against any cost, expense, loss or liability incurred by that Finance Party as a result of:<br>o an Event of Default;<br>o any information produced or approved by JustKapital under the Finance Documents is misleading or deceptive in any respect;<br>o any enquiry, investigation, subpoena (or similar order) or litigation with respect to any Obligor or with respect to the transactions contemplated or financed under the Facility;<br>o a failure by an Obligor to pay any amount due under a finance document on its due date;<br>o funding, or making arrangements to fund, a Loan requested by the Company in a Utilisation Request that is not made;<br>o a Utilisation (or part) not being prepaid in accordance with a notice of prepayment given by JustKapital; and<br>o any amount being paid or payable by a Finance Party to the Agent or security being provided by a Finance Party to the Agent.<br><br>• JustKapital indemnifies the Agent against any cost, liability or loss incurred by the Agent as a result of:<br>o investigating any event which it reasonably believes is a Default;<br>o acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised; or<br>o instructing lawyers, accountants, tax advisers, surveyors or other experts or professional advisers as permitted under the agreement.<br><br>• There are other indemnity obligations in the finance documents. |
| **Guarantee and indemnity**<br><br>**(section 16)** | • Each Guarantor irrevocably and unconditionally, jointly and severally:<br>o guarantees to each Finance Party punctual performance by each Obligor of all that Obligor's obligations under the finance documents;<br>o undertakes with each Finance Party that whenever an Obligor does not pay any amount when due under or in connection with any finance document, that Guarantor shall immediately on demand pay that amount as if it was the principal obligor; and<br>o if any obligation guaranteed by it is or becomes enforceable, invalid or illegal, indemnifies the Lender immediately on demand against any cost, loss or liability suffered by the Lender if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal. The amount of the cost, loss or liability shall be equal to the amount which the Lender would otherwise have been entitled to recover.<br><br>• The guarantee, undertaking and indemnity is a continuing obligation and extends to the ultimate balance of |

| Clause | Summary |
|---|---|
| | sums payable by an Obligor under the finance documents, regardless of any intermediate payment or discharge in whole or part.<br>• Each Guarantor waives any right it may have of first requiring each Finance Party (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from that Guarantor. |
| **Representations by the Obligor**<br>**(section 17)** | • Each Obligor makes the following representations and warranties (among others) to the each Finance Party:<br>○ its payment obligations under the finance documents rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally;<br>○ no event of default is continuing or might reasonably be expected to result from the making of any Utilisation; and<br>○ no Obligor has any Financial Indebtedness outstanding other than Permitted Financial Indebtedness.<br>• The representations made under this section are deemed to be made by each Obligor by reference to the facts and circumstances existing on:<br>○ the date of each Utilisation Request and the first day of each Interest Period; and<br>○ in the case of an additional Guarantor, the day on which the company becomes (or it is proposed that the company becomes) an additional Guarantor. |
| **Consequences of an Event of Default**<br>**(section 21.16)** | • On and at any time after the occurrence of an Event of Default which is continuing, the Agent may (and shall if so directed by the Majority Lenders), by notice to the Company:<br>○ cancel the Total Commitments;<br>○ declare that all or part of the Loans, together with accrued interest, and all other amounts accrued or outstanding under the finance documents be immediately due and payable; or<br>○ declare that all or part of the Loans be payable on demand. |
| **Assignment and Transfers by a Lender**<br>**(section 22)** | • An existing Lender may assign any of its rights or transfer by novation any of its rights and obligations under the Finance Documents to another bank or financial institution or to a trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets. |
| **Assignment and Transfers by an Obligor**<br>**(section 23)** | • No Obligor may assign any of its rights or transferring any of its rights or obligations under the Finance Documents without the prior written consent of the Lender. |
| **Set-off**<br>**(section 28)** | • In the event of a continuing Default, a Finance Party may set off any matured obligation due from an Obligor under the finance documents against any obligation owed by the Finance Party to that Obligor.<br>• A Lender who is also a Warrantholder and exercises its exercise rights may, upon written notice to JustKapital, settle the exercise price by setting off an equivalent amount owed by JustKapital to such Lender in respect of outstanding principal and interest under the finance documents. |

| Clause | Summary |
|---|---|
| **Governing Law**<br><br>**(section 40)** | • The Facility is governed by the laws of New South Wales. |
| **Security** | JustKapital's obligations under the Facility are secured by:<br><br>• the general security deed between JustKapital, the Original Guarantors (except the US Obligors) and the Security Trustee;<br><br>• the pledge and security agreement to be granted by the US Obligors (except JK 1 LLC) in favour of the Security Trustee as Collateral Agent;<br><br>• any other agreement or deed pursuant to which an Obligor grants Security over any asset for the benefit of the Finance Parties; and<br><br>• any agreement or deed designated by the Company and the Security Trustee to be a Security Document for the purpose of the Facility. |

## Part 5 – Summary of key terms of the Underwriting Agreement

| Clause | Summary |
|---|---|
| Pursuant to the Underwriting Agreement, Pitt Capital, a wholly-owned subsidiary of WHSP (the **Underwriter**) has agreed to act as underwriter in connection with the placement (**Placement**) by JKL of 93.75 million new fully paid ordinary shares in JustKapital (**New Securities**). | |
| **Conditions precedent** | The terms and conditions of the Underwriter's offer to underwrite the Placement are conditional upon the following:<br>• JustKapital delivering debt documents (including the Syndicated Facility Agreement), acquisition documents (including the Management Agreement and Presidio Agreement) and the warrant terms to the Underwriter (each in a form acceptable to the Underwriter),<br>• completion of due diligence and delivery of the due diligence questionnaire, opinions, sign-offs and reports to the Underwriter (in a form satisfactory to the Underwriter);<br>• satisfaction (or waiver) of all conditions precedent and conditions subsequent to the Syndicated Facility Agreement;<br>• satisfaction (or waiver) of all conditions precedent for the acquisition;<br>• shareholder resolutions validly passed by the requisite majorities;<br>• JustKapital taking all steps required by the Underwriter to ensure each offer for sale and each sale of New Securities will not require the offeror or seller to prepare and lodge a disclosure document;<br>• the Underwriter appointing one or more sub-underwriters to sub-underwrite subscriptions for all the New Securities;<br>• JustKapital obtaining all relevant approvals and consents to implement the Equity Offer, complete the acquisition and put in place the debt arrangements; and<br>• the ASX imposing a trading halt of not less than two days on the opening date and the ASX not indicating that it will not grant permission for the official quotation of the new shares on the opening date. |
| **Conduct and Timetable**<br><br>**(clause 1 and Attachment A - Timetable)** | • JustKapital must conduct the Placement, prepare the disclosure materials and allot and issue the New Securities in accordance with the Timetable set out in the Underwriting Agreement:<br>• JustKapital must apply for the New Securities to be granted official quotation on ASX and use all reasonable endeavours to ensure that the New Securities are quoted on ASX no later than 10:00am on the Allotment Date and are able to be traded on ASX on a normal settlement basis in accordance with the Timetable. |
| **Bookbuild**<br><br>**(clauses 2 and 3)** | • JustKapital must use reasonable endeavours to procure subscriptions for all New Securities for $0.08 per New Security from 9:30am on the Opening Date until 4:00pm on the Closing Date by way of a bookbuild offering process (**Bookbuild**).<br>• The Underwriter or its affiliates may bid into the Bookbuild and/or subscribe for New Securities under the Placement.<br>• To the extent the Placement is oversubscribed, JustKapital may, with the prior written consent of Pitt Capital, accept applications for more than 93.75 million New Securities. |
| **Obligation to underwrite**<br><br>**(clauses 4, 5 and 6)** | • The Underwriter (itself or through an affiliate) must subscribe for, or procure other investors/sub-investors to subscribe for the balance of New Securities not subscribed for at the Closing Time (**Shortfall Securities**). |

| Clause | Summary |
|---|---|
| | • The Underwriter must pay, or procure payment of the offer price of Shortfall Securities and subscribe or procure subscriptions for the Shortfall Securities by 4:00pm on the Settlement Date. Once this occurs, the liability of the Underwriter under the agreement is extinguished.<br>• The Underwriter may, at any time, appoint one or more sub-underwriters or enter into sub-underwriting commitments with one or more third parties to sub-underwriter up to the total number of New Securities. |
| **Set off**<br>**(clause 6.8)** | • The Underwriter may set-off amounts payable to the Underwriter against any payment obligation owed by the Underwriter or its affiliates to JustKapital in relation to the subscription for New Securities. |
| **Fees and expenses**<br>**(clause 7)** | • JustKapital must pay an underwriting fee of 3% (exclusive of GST) of A$7,500,000 on the Settlement Date.<br>• JustKapital must also reimburse the Underwriter for its reasonable expenses incurred in connection with the Placement, all stamp duty and taxes and all legal costs and disbursements incurred by the Underwriter. |
| **Representations, warranties and agreements by JKL**<br>**(clause 11)** | JustKapital represents and warrants to and agrees with the Underwriter that at the date of acceptance of the offer and at all times leading up to and including the Allotment Date (among other things):<br>• no matter, fact or circumstance exists that would prevent JustKapital from issuing a prospectus;<br>• all information provided to the Underwriter, in any disclosure document or public announcement is true and correct;<br>• JustKapital is making the Placement for the purpose of partially funding the Acquisition;<br>• the issue of the New Securities and the Acquisition will comply with the Listing Rules and the provisions of the Corporations Act;<br>• the New Securities are 'continuously quoted securities' for the purposes of section 713(1)(a) of the Corporations Act;<br>• no determination has been made by ASIC under section 713(6) of the Corporations Act in relation to JustKapital;<br>• the New Securities will be fully paid and shall rank pari passu with the existing Securities for all dividends, distributions, rights and other benefits;<br>• since 30 June 2017, JustKapital's business has been carried on in the ordinary and usual course in all material respects and there has been no changes that could reasonably be expected to have a material adverse effect;<br>• the Due Diligence Investigations have been properly implemented and fully carried out;<br>• none of the Issuer's related parties (as that term is defined in the Listing Rules) or associates of those related parties will participate in the Placement other than as permitted by law or the Listing Rules;<br>• none of JustKapital, any of its affiliates or any person acting on any of their behalves has taken or will take, directly or indirectly, any action designed to, or that might reasonably be expected to, cause or result in the stabilisation or manipulation of the price of the Securities. |
| **JustKapital obligations**<br>**(clauses 10 and 11)** | JustKapital also agrees:<br>• that it will apply for the quotation of the new securities on ASX by 10.00am on the Settlement Date and use reasonable endeavours to ensure that the New Securities are quoted on ASX by 9.30am on the |

| Clause | Summary |
|---|---|
| | Allotment Date;<br>• that it will lodge with ASIC a prospectus for the New Securities and the Warrants, at the Underwriter's discretion, either before the day on which the new securities are issued under the Placement or immediately after the issue of the new securities;<br>• that until the date that is 180 days after the Allotment Date, it must conduct its business and the business of the Group in the ordinary course and not, except as otherwise fully and fairly disclosed by JKL in its announcements to the ASX prior to the Underwriting Agreement:<br>• to provide all information and data that the Underwriter, its officers and advisers reasonably request; and<br>• until the Allotment Date, to continue to conduct due diligence to ensure that the disclosure materials are not false or misleading. |
| **Warranties and undertakings by the Underwriter**<br>**(clause 12)** | The Underwriter represents and warrants to and agrees with JustKapital that at the date of acceptance of this offer and at all times up to and including the Allotment Date, the following is true and accurate and not misleading (among other things):<br>• all approvals and authorities that may be required to permit it to enter into this Agreement and to perform its obligations under this Agreement have been obtained and remain valid and continuing; and<br>• none of it, any of its affiliates has taken or will take, directly or indirectly, any action designed to, or that might reasonably be expected to, cause or result in the stabilisation or manipulation of the price of the New Securities in violation of any applicable law. |
| **Termination**<br>**(clause 13)** | • The Underwriter may, by notice to JustKapital, terminate the Underwriting Agreement without cost or liability at any time if any of the following events occur before the allotment of the New Securities (among other things): there is an outbreak of hostilities not existing, a general moratorium on commercial banking activities, suspension of securities trading, the introduction of a new or materially revised law or a change in the CEO or CFO of JustKapital occurs and in the opinion of the Underwriter, that event is likely to have a material adverse effect on the Placement or the Company;<br>• any debt or acquisition document or the warrant deed poll is terminated, is amended in a material respect or any party is in breach of those agreements;<br>• prior to 10:00pm on the Settlement Date, the S&P/ASX 200 Index is at a level that is 5% or more below its level as at the close of business on the Trading Day prior to the date of the Underwriting Agreement;<br>• any event specified in the Timetable is delayed by the Issuer for 2 or more Business Days, without the prior written consent of the Underwriter;<br>• any certificate required to be furnished by JustKapital is not furnished;<br>• a condition precedent is not satisfied or waived by the Underwriter;<br>• JustKapital is in material breach of the Underwriting Agreement;<br>• any representation or warranty is or becomes incorrect, untrue or misleading;<br>• the Due Diligence Committee Report or information supplied on behalf of JustKapital is false, misleading or deceptive;<br>• JustKapital withdraws the Placement;<br>• there is an application to a Government Agency (including the Takeovers Panel but excluding ASIC) for an order, declaration (including in relation to the Takeovers Panel, a declaration of unacceptable circumstances) or other remedy, or a Government Agency commences any investigation or hearing or announces its intention to do so, in each case in connection with the Equity Offer or any agreement |

| Clause | Summary |
|---|---|
| | entered into in respect of the Equity Offer;<br>• there is a material adverse change, or in Pitt Capital's reasonable opinion, a development involving a potential material adverse change, in the condition, assets, liabilities, financial or trading position or performance, profits, losses, management or prospects of JustKapital, NHF or any of their respective related bodies corporate (in so far as the position in relation to related bodies corporate affects the overall position of JustKapital or NHF, as applicable);<br>• in the reasonable opinion of Pitt Capital, a statement contained in the disclosure materials is or becomes misleading or deceptive (including by omission) or likely to mislead or deceive in a material respect, or any expression of opinion or intention in the disclosure materials is not fairly and properly supportable in a material respect or there are no reasonable grounds for the making of any material statement in the ASX materials relating to future matters;<br>• JustKapital alters its capital structure or constitution without the prior consent of the Underwriter;<br>• proceedings are commenced or there is a public announcement of an intention to commence proceedings before a court or tribunal of competent jurisdiction seeking an injunction or other order in relation to the Placement;<br>• ASX makes any official statement or indicates to JustKapital or Pitt Capital that (i) approval is not granted, withdrawn or qualified (other than subject to customary conditions) to the quotation of all the new securities on the ASX before 9.30am on the Allotment Date, (ii) securities will be suspended from quotation or (iii) JustKapital will be removed from the official list of the ASX;<br>• JustKapital contravenes the Corporations Act, its Constitution, any of the Listing Rules, any other applicable law or request made by ASIC, ASX or any Government Agency, (ii) any aspect of the Equity Offer does not comply with the Corporations Act or the Listing Rules or other applicable laws or (iii) JustKapital is prevented from allotting and issuing the new securities under the Listing Rules, or other applicable laws; or<br>• ASIC issues, or threatens to issue, proceedings in relation to the Placement, or gives notice of its intention to commence, any inquiry or investigation in relation to the Placement. |
| **Indemnity**<br>**(clause 14)** | • JustKapital agrees to indemnifies and agrees to hold harmless the Underwriter and its affiliates from and against any and all claims, actions, losses, liabilities, costs, charges, damages, outgoings, payments and expenses (including legal expenses on a full indemnity basis) suffered or incurred as a result of, in relation to or in any way connected to, the Placement, any breach by JustKapital of the Underwriting Agreement or any of the representations and warranties by JustKapital in the agreement not being true and correct, except where the loss is determined by a court to have resulted from:<br>  ○ fraud or willful misconduct;<br>  ○ gross negligence;<br>  ○ any amount that would be illegal, void or unenforceable under any applicable law; or<br>  ○ any criminal penalty or fine payable for breach of the Corporations Act. |
| **Governing law**<br>**(clause 20)** | • The Underwriting Agreement is governed by the law of New South Wales. |

## Part 6 – Summary of key terms of Escrow Deed

<table>
<tr><th>Clause</th><th>Summary</th></tr>
<tr><td colspan="2">Wattel and Siegel (each, a Holder) will enter into voluntary escrow deeds (Escrow Deed) with JustKapital to escrow the ordinary shares in JustKapital issued to them pursuant to the Management Agreement.</td></tr>
<tr><td>Escrow period (Definitions)</td><td><ul><li>The Escrow Period commences on the date of issue of the shares and ends on 31 December 2021.</li></ul></td></tr>
<tr><td>Voting rights<br><br>(clause 2)</td><td><ul><li>During the Escrow Period, the Holder must not vote of, or agree to offer to exercise any voting rights attaching to his shares, except in respect of the following resolutions or proposed resolutions – resolutions to:<ul><li>approve the issue of shares at a price per share less than 70% of the market price at the date of the first public announcement of the terms of such issue;</li><li>remove or appoint Wattel as a director;</li><li>approve a merger by scheme of arrangement;</li><li>approve a transaction under ASX Listing Rule 11.1 or 11.2; or</li><li>approve an allotment or transfer of shares under item 7 of section 611 of the Corporations Act.</li></ul></li></ul></td></tr>
<tr><td>Disposal of Voluntary Escrow Rights<br><br>(clause 2)</td><td><ul><li>During the Escrow Period, the Holder must not dispose of his shares except to:<ul><li>enable the Holder to accept an offer under a takeover bid or enable the shares to be transferred or cancelled as part of a merger by scheme of arrangement;</li><li>the extent required by law;</li><li>encumber the shares to a bona fide third party financial institution as security for a loan, hedge or other financial accommodation; or</li><li>an Affiliate or an Affiliated Fund of the Holder, provided such Affiliate or Affiliated Fund agrees to be bound by the terms of the escrow deed.</li></ul></li></ul></td></tr>
<tr><td>Breach<br><br>(clause 6)</td><td><ul><li>If it appears to JustKapital that the Holder may breach the escrow deed, JustKapital may take any steps necessary to prevent the breach or enforce the escrow deed as soon as it becomes aware of the potential breach;</li><li>If the Holder breaches the Escrow Deed:<ul><li>JustKapital may:<ul><li>take the steps necessary to enforce the escrow deed or rectify the breach;</li><li>refuse to acknowledge, deal with, accept or register any sale, assignment, transfer or conversion of any of the voluntary escrow shares;</li></ul></li><li>the Holder ceases to be entitled to any dividends or distributions while the breach continues; and</li><li>the parties agree that the Company is entitled to seek and obtain an injunction or specific performance to enforce the Holder’s obligations.</li></ul></li></ul></td></tr>
<tr><td>Governing Law<br><br>(clause 9)</td><td><ul><li>The Escrow Deed is governed by the laws of New South Wales.</li></ul></td></tr>
</table>

## Part 7 – Summary of key terms of the Management Employment Agreements

<table>
<tr><th>Clause</th><th>Summary</th></tr>
<tr><td colspan="2">NHF will enter into separate Employment Agreements with Wattel and Siegel (each, an Executive). As between NHF and Wattel, the Employment Agreement will govern the terms of Wattel's employment as Chief Executive Officer of NHF. As between NHF and Siegel, the Employment Agreement will govern the terms of Siegel's employment as Medical Director of NHF.</td></tr>
<tr><td>Term<br><br>(Article 1.2)</td><td><ul><li>The Employment Agreement is for a three year term (subject to termination in accordance with the Employment Agreement).</li><li>If an Executive continues employment beyond the Term, the Executive's employment will continue on an at-will basis.</li></ul></td></tr>
<tr><td>Compensation and benefits<br><br>(Article 3)</td><td>During the Term:<ul><li>NHF will pay a base salary of US$400,000 to Wattel and US$250,000 to Siegel, subject to periodic increases deemed appropriate by the JustKapital Board or Compensation Committee.</li><li>the Executive is entitled to a non-discretionary bonus of up to US$4,150,000 in five quarterly payments of US$830,000, with the first payment due on the last day of the first calendar quarter which commences after the satisfaction of the following conditions:<ul><li>at least US$50,000,000 having been collected from the loan book as verified by JustKapital based on the KPMG actuarial analysis as at 31 December 2017; and</li><li>the total level of net loan receivables as disclosed in the Company's monthly management accounts for the end of the relevant quarter is at least:<table><tr><td>March 2020</td><td>175,000,000</td></tr><tr><td>June 2020</td><td>180,000,000</td></tr><tr><td>September 2020</td><td>190,000,000</td></tr><tr><td>December 2020</td><td>199,000,000</td></tr><tr><td>March 2021</td><td>209,000,000</td></tr></table></li><li>the US$5,000,000 promissory notes issued to the Executive, have been repaid in full; and</li><li>Atalaya and WHSP having consented to the payment in writing;</li></ul></li><li>the Executive may be entitled to an annual discretionary bonus under the JustKapital Group Management Incentive Plan, in such amount as may be determined by the JustKapital Board;</li><li>the Executive shall be eligible to participate in the JustKapital Group Equity Incentive Plan, on terms and conditions, as determined by the JustKapital Board; and</li><li>the Executive shall be entitled to participate in all employee benefit plans and programs generally made available by the Company to senior executives of NHF.</li></ul>The Executive will also be entitled to:<ul><li>paid vacation days in accordance with his past practice with NHF;</li><li>only Siegel will be entitled to a Finder's Fee up to a maximum of US$150,000 each calendar year, based upon adding at least one new viable Partner Provider each calendar quarter;</li><li>reimbursement for all reasonable out-of-pocket business expenses; and</li></ul></td></tr>
</table>

| Clause | Summary |
|---|---|
| | • tail coverage under NHF's directors and officers liability insurance policy for claims made against the Executive in his capacity as manager, officer and agent of the Company within six years of the effective date of the Employment Agreement. |
| **Termination of employment**<br><br>**(Article 4)** | NHF may terminate the Executive's employment:<br><br>• for cause (including if the Executive is convicted of a felony or crime that brings NHF into disrepute or materially and adversely affects its, or its Affiliates' financial performance; gross negligence or willful misconduct; material violation of NHF policy; refusal to perform any lawful duty; material breach of any agreement not cured within 10 days' written notice; breach relating to confidentiality or noncompetition; illegal use of drugs; or fraud) at any time upon written notice to the Executive; or<br><br>• without cause, with 30 days prior written notice to the Executive; or<br><br>• by five days written notice as the result of any Disability suffered by the Executive.<br><br>The Executive may terminate his employment with NHF:<br><br>• for good reason (including a material breach by NHF of the Employment Agreement, a material reduction in the Executive's Base Salary, a material diminution in the Executive's authority, duties or responsibilities; or a material change in the geographic location at which the Executive performs services for NHF), provided the Executive notifies NHF within 90 days of the occurrence of a "good reason" condition and provides NHF with at least thirty days to cure the condition; and<br><br>• without good reason upon 90 days prior written notice to NHF, provided that NHF reserves the right to accept the Executive's notice of resignation and accelerate the notice. |
| **Restrictive Covenants**<br><br>**(Article 5)** | • During the period of his employment by NHF and for the greater of<br><br>  ○ two years after termination of the Executive's employment with NHF (for any reason or no reason); or<br><br>  ○ the length of any other non-compete between Executive and NHF,<br><br>the Executive is prohibited from, without the prior written consent of NHF, directly or indirectly becoming employed by, engaging in business with or becoming a director, manager, member, stockholder, partner, owner, consultant or agent of any business that competes with NHF, or otherwise perform services for or permit his name to be used in connection with the activities of any business that competes with the Company anywhere in United States, Canada, Australia and Europe.<br><br>• During the same restricted period, the Executive is prohibited from:<br><br>  ○ contacting, communicating, soliciting or transacting any business with any clients of NHF or any Affiliate;<br><br>  ○ soliciting, inducing or assisting any third party in soliciting or inducing any individual or entity who is then (or was at any time within 18 months prior to the solicitation or inducement) an employee, consultant, independent contractor, or agent of NHF or any Affiliate to leave the employment of NHF or cease performing services for NHF or any Affiliate; or<br><br>  ○ hiring or engaging (or assisting any third party in hiring or engaging), any individual or entity that is or was (at any time within 18 months prior to the attempted hiring or engagement) an employee, consultant, independent contractor, broker, commissioned salesperson or agent of NHF or any Affiliate. |

| Clause | Summary |
|---|---|
| **Governing Law** <br><br> **(Section 6.5)** | • The Employment Agreement is governed by, and construed in accordance with, the laws of the State of Arizona. |

# APPENDIX 4 – INDEPENDENT EXPERT REPORT

# JustKapital Limited

Independent Expert's Report and Financial Services Guide

21 August 2018

Directors
JustKapital Limited
Level 16, 56 Pitt Street
SYDNEY NSW 2000

**Grant Thornton Corporate Finance Pty Ltd**
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21 August 2018

Dear Directors

# Independent Expert's Report and Financial Services Guide

## Introduction

JustKapital Limited ("JKL" or "the Company") provides funding for out of pocket expenses (disbursements) and short-term loan facilities for law firms ("JKL Disbursement Funding Business") and 'after-the-event' insurance broking services placed with overseas insurers. JKL also has a litigation funding business ("Litigation Funding Business" or "Litigation Portfolio") but it is currently categorised as assets held for sale as the Directors have resolved to exit the litigation funding business. The litigation funding business is in "run off" in that the existing cases will be funded to completion and no new cases will be funded. It is no longer "held for sale" and this will be re-categorised (as intangibles) in the financial statements at 30 June 2018.

The Company had a net Disbursement Funding Business receivables book of A$25.2 million– including short term loans of A$1.4 million—as at 31 December 2017. JKL is listed on the Australian Securities Exchange and had a market capitalisation of A$10.3 million as at 17 July 2018[1].

National Health Finance HoldCo, LLC ("NHF") is a USA-based medical lien purchasing company that also facilitates medical treatments for personal injury victims, usually 'not at fault' motor vehicle accident victims. NHF acquires medical liens associated with personal injury cases from medical providers and hospitals and it realises a return on these invoices upon completion or settlement of the litigation. NHF had a net receivables book of US$93.7 million or A$124.9 million[2] as at 31 December 2017.

[1] Assuming 147,933,958 ordinary shares and a share price of A$0.07.
[2] Based on a A$:US$ exchange rate of 0.75, which is the 2 month average rate as at 25 July 2018 ("Valuation Date Exchange Rate"). In the remainder of this document for all items relating to the acquisition finance, we have used an A$:US$ exchange rate of 0.77 as this is the rate agreed between the parties in the deal structure ("Deal Structure Exchange Rate").

The founders of NHF, David Wattel and Mark Siegel (together referred to as the “NHF Founders”) each currently hold 31.25% of NHF’s share capital with the balance of 37.5% directly and indirectly held by entities associated with Presidio Investors[3].

On 12 September 2017, JKL announced that it had signed a conditional Securities Purchase Agreement to acquire 70% of NHF for a total purchase price of US$68.0 million payable in cash at completion. However, on 4 December 2017, JKL announced that the proposed acquisition of NHF would no longer proceed in the agreed structure.

On 19 July 2018, JKL announced that it had entered into two revised agreements[4] to implement the acquisition of 100% of the issued capital of NHF (“Proposed Transaction”) for a total purchase price of US$53.0 million equivalent to A$68.8 million based on the Exchange Rate.

The consideration will be satisfied as outlined below:

- A cash payment on completion of US$26.5 million equivalent to A$34.4 million payable to the Presidio Investors to purchase 37.5% of the issued capital of NHF[5].

- The issue of 215,097,403 new JKL Shares at A$0.08 per share to the NHF Founders (“NHF Founders’ Shares”) (50/50 split) which is equivalent to A$17.2 million or US$13.2 million[6].

- A vendor loan from the NHF Founders (“NHF Founders Loan”) totalling A$17.2 million equivalent to US$13.2 million[7] with a term of four years and bearing an interest rate of 13.0% per annum. The NHF Founders Loan is unsecured and as consideration for providing it, the NHF Founders will receive 61.4 million warrants each with an exercise price of A$0.14 per warrant and an expiry date of 4 years after the issue (“NHF Founders’ Warrants”). The NHF Founders Warrants can be exercised at any time within the 4 year period.

In addition to the above, the NHF Founders will enter into an employment contract with JKL based on standard commercial terms for a period of three years. Under the terms of the employment contracts, the NHF Founders are entitled to receive a non-discretionary bonus of up to US$8.3 million or A$11.1[8] million (50/50 split) paid in equal instalments over five quarters (“NHF Founders Incentive Payment”) subject to meeting certain performance hurdles and other conditions precedent, including consent from the Group’s financiers. We note that if NHF’s loan receivables book performs in-line with the historical performance, the NHF Founders Incentive Payment is expected to be paid in full (subject to the consent of the Group’s financiers).

The cash component of the consideration of A$34.4 million payable to the Presidio Investors and transaction expenses of the combined JKL and NHF (herein referred to as “Merged Entity” or “LawFinance”) will be funded via the following:

- A placement of 93,750,000 new fully paid ordinary shares at A$0.08 per share (“Placement”) to raise A$7.5 million before costs. The Placement is fully underwritten by Pitt Capital Partners

[3] Presidio Investors NHF and Presidio Investors NHF 2, LP (“Presidio Investors”).
[4] One agreement with the NHF Founders and one agreement with the Presidio Investors.
[5] Based on the Deal Structure Exchange Rate
[6] Based on the Deal Structure Exchange Rate
[7] Based on the Deal Structure Exchange Rate
[8] Based on the Valuation Date Exchange Rate

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Limited ("PCP"), a wholly-owned subsidiary of Washington H. Soul Pattinson and Company Limited ("WHSP"), subject to conditions.

- A syndicated acquisition facility totalling A$42 million bearing an interest rate of 13.0% per annum with a maturity of four years ("Syndicated Acquisition Facility"). The Syndicated Acquisition Facility is provided by WHSP for A$25 million and the balance by other sophisticated investors. The Syndicated Acquisition Facility is secured over the assets and undertakings of the Merged Entity but it ranks second behind the existing receivables facilities of NHF and JKL. The Company will also issue 299.9 million warrants to the debt providers as establishment fee ("Syndicated Acquisition Facility Warrants") with an exercise price of A$0.14 and a maturity of four years. In addition, WHSP will receive A$650,000 in cash and will be issued 30 million warrants with an exercise price of A$0.14 and a maturity of four years as due diligence and advisory fee. The warrants are exercisable at any time within 4 year period.

In addition, JKL will undertake a non-renounceable, 1:1 pro-rata rights issue of up to 147,933,598 new fully paid ordinary shares at A$0.08 per share ("Rights Issue") to raise up to A$11.8 million before costs and to provide existing shareholders with an opportunity to invest on the same terms as the other investors. We note that the Rights Issue is not underwritten but Management has prepared the pro-forma financial information assuming that Shareholders will take up approximately 56,250,000 shares, raising A$4.5 million in cash before costs (circa 38% take-up). We have undertaken a number of sensitivities in relation to the percentage take-up of the Rights Issue.

In summary, in conjunction with the acquisition of NHF and the funding of the Proposed Transaction, the Company will issue the following shares and warrants:

| Company's new shares and warrants (million) | | |
|---|---|---|
| **Shares** | **No. of shares** | **Reasons** |
| NHF Founders | 215.1 | To purchase a 62.5% interest in NHF held by the NHF Founders |
| Rights Issue[1] | 56.3 | Shares issued to existing JKL Shareholders to fund working capital |
| Placement | 93.8 | Shares underwritten by WHSP to fund the consideration, transaction expenses, and working capital |
| **Total new JKL Shares** | **365.10** | |
| **Warrant** | **No. of Warrants** | **Reasons** |
| Syndicated Acquisition Facility | 299.9 | To be issued to the Syndicated Acquisition Facility debt providers |
| WHSP Warrants | 30.0 | WHSP cornerstone due diligence and advisory fee |
| NHF Founders Warrants | 122.9 | To be issued to the NHF Founders for provision of the NHF Founders Loan |
| **Total new warrants** | **452.7** | |

*Source: JKL Management*
*Note: 1. Assuming Rights Issue of 56,250,000 new fully paid ordinary shares at A$0.08 per share to raise A$4.5 million before costs.*

We understand that post completion of the Proposed Transaction, the NHF Founders will hold up to 41.8% of the issued capital of the Merged Entity on an undiluted basis or up to 32.3% on a fully diluted basis as outlined in the table below (based on a 38% take-up of the Rights Issue).

| JKL share capital after the Proposed Transaction | *Section reference* | No. of Shares | % Interest undiluted | Share issued on exercise of warrants | No. of Shares fully diluted | % of interest fully diluted |
|---|---|---|---|---|---|---|
| Existing JKL Shareholders[1,2] | | 149,198,167 | 29.0% | - | 227,323,167 | 21.7% |
| Share issued to NHF Founders | *1.1* | 215,097,403 | 41.8% | 122,863,636 | 337,961,039 | 32.3% |
| Shares issued under Rights Issue[3] | *1.4* | 56,250,000 | 10.9% | - | 56,250,000 | 5.4% |
| Shares issued under Placement | *1.4* | 93,750,000 | 18.2% | - | 93,750,000 | 9.0% |
| No. of shares issued to debt providers | *1.3* | - | -% | 329,880,000 | 329,880,000 | 31.6% |
| **Total No. of Shares** | | **514,295,570** | **100%** | **452,743,636** | **1,045,164,206** | **100%** |

*Source: JKL Management*

*Notes: 1. Includes 147,933,598 ordinary shares and 1,264,569 performance rights which vested on 30 June 2018 as indicated by JKL Management but it excludes the number of shares to be issued upon conversion of the JKL Convertible Bonds; 2. Under fully diluted basis includes 78,125,000 shares from the conversion of the A$5 million convertible bonds ("JKL Convertible Bonds") assumed at A$0.064 per share; 3. Assuming a take-up of the Rights Issue of 56,250,000 new fully paid ordinary shares at A$0.08 per share to raise A$4.5 million before costs.*

If the take up of the Rights Issue is 100%, the interest of the NHF Founders will be 35.5% on an undiluted basis and 29.7% on a fully diluted basis. If the take-up of the Rights Issue is 0%, the interest of the NHF Founders will be 47.0% on an undiluted basis and 34.2% on a fully diluted basis.

We have set out below an abstract of the other key terms of the Proposed Transaction (refer to the Explanatory Memorandum for details):

- David Wattel will be invited to join the Board of Directors of the Merged Entity.
- The NHF Founders have agreed to enter into escrow deeds to restrict the sale of the shares allotted to them as part of the Proposed Transaction until 31 December 2021 ("Escrow Deed").
- The Proposed Transaction is subject to, among other conditions customary for a transaction of this type:
  - The shareholders of JKL ("JKL Shareholders") approving the issue of up to a maximum of 338 million JKL Shares to the NHF Founders, including JKL Shares to be issued to the NHF Founders upon exercise of the NHF Founders Warrants.
  - JKL securing the debt finance of approximately A$42 million.
  - NHF obtaining approval for the Proposed Transaction by its current lender Atalaya Special Opportunities Fund VI LP ("Atalaya").
  - The NHF Founders entering into an employment agreement with NHF.

If the Proposed Transaction completes, and subject to JKL Shareholders approval, JKL will change its name to LawFinance Limited.

The Board of JKL has unanimously recommended that JKL Shareholders vote in favour of the resolutions to effect the Proposed Transaction and each Director of JKL intends to vote all JKL Shares held or controlled by them in favour of the Proposed Transaction.

## Purpose of the report

The Directors have engaged Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") to prepare an independent expert's report stating whether, in its opinion, the issue of 215.1 million JKL Shares to the NHF Founders on completion of the Proposed Transaction and the issue of 122.9 million JKL Shares upon conversion of the NHF Founders Warrants is fair and reasonable to the JKL Shareholders for the purposes of Item 7 of Section 611 of the Corporations Act.

We note that the issuance of the JKL Shares to the NHF Founders is contingent on, among other things, the acquisition of the Presidio Investors' 37.5% interest in NHF and completion of the Placement and the Syndicated Acquisition Facility. Accordingly, in our assessment we have had

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regard to the Proposed Transaction as a whole, which comprises Resolution 1 to Resolution 9 in the Notice of Meeting.

## Summary of opinion

**Grant Thornton Corporate Finance has concluded that the Proposed Transaction is FAIR and Reasonable to the Non-Associated Shareholders.**

In forming our opinion, Grant Thornton Corporate Finance has considered whether the Proposed Transaction is fair and reasonable to the JKL Shareholders and other quantitative and qualitative considerations.

*Fairness Assessment*
In accordance with the requirements of the Australian Securities and Investment Commission ("ASIC") Regulatory Guide 111 Contents of expert reports ("RG 111"), in forming our opinion in relation to the fairness of the Proposed Transaction to the JKL Shareholders, Grant Thornton Corporate Finance has compared the value per JKL Share before the Proposed Transaction (on a control basis) to the assessed value of the Merged Entity after the Proposed Transaction (on a minority basis).

We have set out below our fairness assessment which assumes a 38% take up of the Rights Issue, in line with JKL Management's assumption and pro-forma financial information.

We have performed our fairness assessment under two scenarios:

- *Warrants Not Exercised Scenario* – this scenario assumes that the 452.7 million new warrants issued as part of the Proposed Transaction ("Warrants") will not be exercised by the holders as the exercise price of A$0.14 for the Warrants is out of the money based on our valuation assessment of JKL. Accordingly we have valued the Warrants using the binomial option pricing model (see section 9.1.3 for further details).

- *Warrants Exercised Scenario* – this scenario assumes that the Warrant holders will exercise all of their Warrants on completion of the Proposed Transaction resulting in additional cash of A$63.4 million to the Merged Entity and the issue of 452.7 million new JKL Shares.

Fairness assessment

| Fairness assessment - Warrants Exercised Scenario | | Warrants Not Exercised Scenario | | Warrants Exercised Scenario | |
|---|---|---|---|---|---|
| Australian cents per share | *Section Reference* | Low | High | Low | High |
| JKL Shares before the Proposed Transaction (control basis) | *8.1* | 7.97 | 12.22 | 7.97 | 12.22 |
| Merged Entity Shares after the Proposed Transaction (minority basis) | *9.1* | 9.47 | 11.52 | 12.25 | 13.97 |
| Premium / (discount) | | 1.50 | (0.71) | 4.28 | 1.74 |
| Premium / (discount) (%) | | 18.9% | (5.8%) | 53.7% | 14.3% |
| **FAIRNESS ASSESSMENT** | | **FAIR** | | **FAIR** | |

*Source: GTCF analysis*

Under the Warrants Not Exercised scenario outlined above, the value per share of the Merged Entity on a minority basis mostly overlaps with the value per share of JKL before the Proposed Transaction on a control basis. Whereas for the Warrants Exercised Scenario, the value per share of the Merged

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Entity on a minority basis is mostly greater than the value per share of JKL before the Proposed Transaction on a control basis. Accordingly, we have concluded that the Proposed Transaction is **FAIR** to Non-Associated JKL Shareholders[9]. We note that the significant uplift in the value per Share of the Merged Entity under the Warrants Exercised Scenario is driven by the fact that the Warrants are exercised at 14 cents per share while the value of the underlying JKL Shares is significantly lower.

JKL Shareholders should be aware that our assessment of the value per JKL Share after the Proposed Transaction does not reflect the price at which JKL Shares will trade if the Proposed Transaction is completed. The price at which JKL Shares will ultimately trade depends on a range of factors including the liquidity of JKL Shares, macro-economic conditions, the underlying performance of the Merged Entity, and the supply and demand for JKL Shares.

*Reasonableness Assessment*

RG111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, there are sufficient reasons for the security holders to accept the offer in the absence of any superior proposal. In assessing the reasonableness of approving the Proposed Transaction, we have considered the following advantages, disadvantages and other factors.

**Advantages**

*Cash proceeds if the Warrants are exercised*

If all Warrant holders exercise all of the 452.7 million Warrants issued as part of the Proposed Transaction, the Merged Entity will receive cash proceeds of c. A$63.4 million and issue 452.7 million new shares. Given the Warrants have an exercise price of A$0.14, based on the current spot price of c. A$0.07, existing JKL Shareholders will benefit from the increase in equity value from the cash proceeds, which will outweigh the dilution effects of the additional shares.

*Exposure to large US medical lien purchasing industry*

If the Proposed Transaction proceeds, JKL Shareholders will be exposed to the United States medical lien purchasing market which is estimated by JKL Management at US$19.7 billion. NHF's business model is based on the affiliate network (explained in section 5.1.2) which allows for rapid growth in new markets. NHF is anticipating significant growth of its current business volumes by using the current infrastructure and with minimal increases to corporate overheads. In the short term, NHF is planning to expand into the states of Colorado, Mississippi, Illinois, Idaho and Ohio.

*NHF Founders' expertise and experience*

JKL will benefit from the expertise and experience of NHF Founders David Wattel and Mark Siegel who founded the NHF business in 1999 and are expected to sign three-year employment agreements with JKL. David Wattel, the NHF CEO, has over 25 years of experience as a personal injury attorney. Dr. Mark Siegel, NHF Executive Board member, is a co-founder of an Arizona based hospital and is a Clinical Practitioner with over 20 years of experience as an accident and injury

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[9] Given the uncertainty in relation to the Rights Issue take-up by existing JKL Shareholders, we have also outlined the fairness assessment assuming a take-up of the Rights Issue of 0%, 50% and 100% in Appendix E.

physician. Since the inception of NHF, the NHF Founders have expanded the business into 19 states across the United States through the company's affiliate structure and have developed a network of influential and leading physicians or other third party providers ("Partner Providers") in each state who have the contacts and relationships to connect businesses to NHF. As at 2017, NHF had a network of 3,000 physicians providing a wide range of health care treatments.

*Large and more diversified operations*

Following completion of the Proposed Transaction, the size and scale of the operations, geographic footprint and depth of the Management Team will increase significantly which may provide benefits to JKL Shareholders which are difficult to quantify in our fairness assessment.

*Valuation assessment on a control basis*

Our valuation assessment of JKL before the Proposed Transaction includes the application of a full premium for control in accordance with the requirements of ASIC RG111. However, the commerciality of the Proposed Transaction is somehow different as outlined below:

- The NHF Founders Shares and NHF Founder Warrants will be held in escrow ("Escrow Shares") from the date of issue of the shares until 31 December 2021 ("Escrow Period") with the following restrictions and conditions as per the Escrow Deed:
  - The NHF Founders are not allowed to vote the Escrow Shares during the Escrow Period[10]
  - The NHF Founders are not allowed to dispose of the Escrow Shares during the Escrow Period[11]
- The NHF Founders will hold up to 41.8% of the issued capital of the Merged Entity on an undiluted basis or up to 32.3% on a fully diluted basis as outlined in the table below (based on a 38% take-up of the Rights Issue).
- The composition of the Board will remain substantially the same however, Mr David Wattel will be invited to join the board.
- The Management team of JKL will remain substantially the same and NHF will operate with a clear growth strategy reporting to JKL senior management.

Accordingly, the application of a full premium for control in our valuation assessment before the Proposed Transaction may not necessarily be justified by the commercial reality of the Proposed Transaction.

[10] Except for a number of resolutions as detailed in the Escrow Deed.
[11] Except for a number of resolutions as detailed in the Escrow Deed.

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**Disadvantages**

*High debt level*

Following completion of the Proposed Transaction and as a result of the payment of the cash consideration to the Presidio Investors and other ancillary payments, the Merged Entity will have a high level of net debt of circa A$133.4 million[12], excluding the A$18.4 million in debt associated with the Litigation Portfolio after the Proposed Transaction. See section 9.1.2 for a breakdown of the Merged Entity net debt. We note that as a result, the loan to value ratio of the receivable book will be significantly higher than the listed peers as outlined in the table below.

| Net debt as % of receivables at carrying value<br>A$m | Market cap[1] | Receivables[2] | Net Debt | Net debt % of receivable |
|---|---|---|---|---|
| Merged Entity[3] | na | 142 | 132 | 93% |
| JKL - Disbursement Funding business[4] | 11 | 25 | 23 | 90% |
| Credit Corp Group Limited | 848 | 501 | 220 | 44% |
| Money3 Corporation Limited | 345 | 236 | 60 | 25% |
| Pioneer Credit Limited | 188 | 198 | 96 | 49% |
| Collection House Limited | 196 | 300 | 135 | 45% |

Sources: *Companies' financial reports and GTCF analysis*
*Notes: 1. Market cap as at 10 July 2018. 2. Receivables at carrying value as at 31 December 2017. 3. Merged Entity Receivables and Net Debt computed based on: a controlling interest of 97%; the Valuation Date Exchange Rate; and excluding the Litigation Portfolio associated borrowings 4. JKL Net Debt excluding the Litigation Portfolio associated borrowings.*

As a result of the high level of debt, the Merged Entity will have reduced financial flexibility compared with the listed peers and if the performance of the NHF or JKL businesses is not in accordance with Management's expectations, the Merged Entity may be required to raise additional debt or equity funding, which, if available, may be dilutive to existing JKL Shareholders.

Notwithstanding the above, we note that the current circumstances of JKL Shareholders before the Proposed Transaction are slightly worse given the existing debt level and receivable balances as outlined in the table above.

*NHF Founders*

The NHF Founders David Wattel and Mark Siegel are integral to the success and continuing expansion of NHF. If the NHF Founders were to cease being involved in the Management of the Merged Entity, the growth prospects and sustainability of the operations of the Merged Entity may be adversely affected. We note that the legal agreements entered between JKL and the NHF Founders do not include any claw-back of the consideration paid if the NHF Founders leave the Merged Entity in the short/medium term after completion of the Proposed Transaction.

Whilst this is a risk for JKL Shareholders, we note that this risk is mitigated by a number of factors including:

- The NHF Founders will be major shareholders of JKL following completion of the Proposed Transaction and accordingly are expected to conduct themselves in a manner that will maximise the return on their investment.

[12] Assuming a 38% take-up of the Rights Issue and excluding the debt associated with the Litigation Portfolio.

- The NHF Founders have entered into three-year employment agreements, which include the non-discretionary bonuses that will be foregone if their employment is terminated.

- The Escrow Deed restricts the sale of the JKL Shares allotted to the NHF Founders until 31 December 2021.

*United States healthcare regulation*

The United States health care industry is currently subject to intense scrutiny and uncertainty. Whilst the current administration has repeatedly threatened to repeal the Affordable Care Act, it has not done so yet, however it has implemented a number of policies which have destabilised key aspects of the Affordable Care Act. Future changes to the healthcare system in the US may impact NHF's business and financial performance, either positively or negatively. Furthermore, as the medical liens purchasing industry grows, there is a possibility that regulators could impose regulatory changes which could negatively impact NHF.

*Access to future funding*

NHF is heavily reliant on debt funding for the purchase of medical liens and the continued access to debt funding is critical to grow the business. We note that the existing facility with NHF's lender Atalaya has a limit of US$80 million ("Atalaya Debt Facility"), of which US$38.3 million was drawn as at 31 December 2017. NHF has the ability to increase the total limit to US$155 million subject to agent/lender consent. If the ability of NHF to continue to access debt facility is curtailed by market conditions or specific circumstances of the business, the market value of NHF will be adversely affected.

*Exposure to exchange rate risk*

NHF operates in the United States and it will represent the majority of the receivables and expected profits of the Merged Entity. Following completion of the Proposed Transaction, the exposure to exchange rate risk will increase materially for JKL Shareholders. We note that management intends to change its functional currency to USD following the Proposed Transaction.

*Likelihood of receiving a premium for control in the future*

The NHF Founders will control 41.8% of the issued capital on an undiluted basis and 32.3% on a fully diluted basis. In our opinion, this will reduce the takeover contestability of the Company and a change of control transaction will not eventuate without the prior consent of the NHF Founders.

**Other factors**

*Escrowed shares*

The NHF Founders have entered into the Escrow Deed whereby they will not dispose of their JKL Shares until 31 December 2021 in the absence of a change of control transaction of JKL or other specific circumstances.

This will effectively slightly decrease the fair market value of the JKL Shares received by the NHF

Founders given they are not able to dispose of them for approximately 3 and a half years. This value reduction has not been quantified in our valuation assessment of the Merged Entity as it refers to the specific circumstances of the NHF Founders.

*Substantial goodwill balance after completion of the Proposed Transaction*

The pro-forma balance sheet of the Merged Entity (refer to section "Financial information" of the Explanatory Memorandum) recognises a goodwill arising from the Proposed Transaction of circa US$16 million which represents circa 45% of the pro-forma net assets of the Merged Entity. The goodwill balance will be tested for impairment on an annual basis in accordance with the accounting standard. The large goodwill balance carried by the Merged Entity post completion will increase the risk of potential goodwill impairment should the financial performance of the Merged Entity be below expectations.

*Value of the Litigation Portfolio*

This division provides finance to claimants to progress their claim. We note that JKL has historically funded 11 cases in total. As at the date of this report, three cases have settled with Federal Court approval[13], one case has conditionally settled (subject to Federal Court approval), and the 7 remaining cases are currently ongoing (collectively "Litigation Portfolio"). On 17 July 2018, the Company announced it had signed a facility agreement with FCCD (Australia) Pty Limited ("Fortress") and its associates to fund JKL's future funding obligations for 5 cases within the Litigation Portfolio ("Fortress Facility"). One of these cases has now settled, and there are 4 remaining cases covered by the Fortress Facility. Regarding the 3 remaining cases not covered by the Fortress Facility, JKL Management has advised that one does not require any further funding and two can be funded from JKL cash flow and cash resources. Management has indicated that it anticipates a successful exit by late 2019, early 2020 with the proceeds used to repay the related corporate debt.

Our valuation assessment of the Litigation Portfolio is based on the net present value of the future expected cash flows on an after tax basis. As discussed in section 8.1.2, the expected returns of the various cases for JKL are calculated by Management based on their best estimates having regard to the information available at this point in time, the legal agreement in place between JKL, the claimants, the case lawyers, the co-funders (if any) and Fortress.

For the 7 ongoing cases, we have assumed a probability of successful completion for each case of 85% based on the average success rate for IMF Bentham ("IMF") (90%) and Litigation Capital Management ("LCM") (80%) as at 31 December 2017.

However, we note that the circumstances of JKL are peculiar given that the Litigation Funding Business is not a going concern but is in run-off mode. Under a going concern scenario, it is reasonable to assume that in the long term, the success rate of a market participant will align with the long-term average success rate of the industry. Conversely, given the Litigation Portfolio is in run-off mode, it is not inconceivable that a success rate of 100% will be achieved.

If JKL achieves a success rate of 100% on all the remaining 7 cases, the valuation assessment before the Proposed Transaction may be higher, however, in our opinion, it is unlikely that a pool of

[13] One case received Federal Court approval on 18 April 2018; the other 2 cases received Federal Court approval on 26 July 2018

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potential purchasers may be prepared to pay a value for the Litigation Portfolio assuming that all the cases are successful due to the following:

- The Company has undertaken a competitive sale process for the Litigation Portfolio, but considers that the fortress funding facility provided a superior outcome for JKL Shareholders.

- Based on our valuation assessment of the Litigation Portfolio between A$16.3 million and A$20.1 million and the related debt of circa A$19 million, the Litigation Portfolio has a gearing[14] level between 95% and 117% which is significantly higher than market best practice and the gearing of listed peers.

- JKL had limited ability to continue to fund the existing cases in the portfolio under its existing facilities (prior to the new Fortress Facility).

These factors will have a negative adverse impact on the fair market value of the Litigation Portfolio.

*Trading prices in the absence of the Proposed Transaction*

Following the announcement of the Proposed Transaction, the share price of JKL has barely moved which seems to be a reflection of the low level of liquidity. Despite significant movements in the JKL share price in the last 12 months, we note that no material movements in the trading prices were observed in conjunction to the announcements recently released by the Company in relation to the satisfactory settlement of three litigation cases[15] (two of them contingent on final Court approval)[16]. Whilst, it is difficult to draw conclusions given the limited liquidity in the JKL trading prices, we are of the opinion that the trading prices in the absence of the Proposed Transaction may not materially decrease.

*Implications if the Proposed Transaction is not implemented*

If the Proposed Transaction is not implemented, it would be the current Directors' intention to continue operating JKL in line with its objectives and continue to "run-off" the Litigation Portfolio. JKL Shareholders who retain their shares would continue to share in any benefits and risks in relation to JKL's ongoing business.

*Directors recommendation*

As set out in the Notice of Meeting ("NOM"), as at the date of this Report, the Directors of JKL have recommended that JKL Shareholders vote in favour of the Proposed Transaction subject to the independent expert concluding and not changing its conclusion that the Proposed Transaction is fair and reasonable to non-associated JKL Shareholders. The Directors also intend to vote the shares they hold or control in favour of the Proposed Transaction.

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[14] Debt/equity value.
[15] JKL applied for voluntary suspension prior to the announcement of the Proposed Transaction on 19 July 2017.
[16] While the company has settled four cases in total (three with Federal Court approval and one subject to Federal Court approval), JKL has only announced the successful settlement of one case and conditional settlement of two others (subject to Federal Court approval).

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## Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Proposed Transaction is **REASONABLE** to the non-associated JKL Shareholders.

## Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Proposed Transaction is **FAIR AND REASONABLE** to the non-associated JKL Shareholders.

**Fairness and reasonableness in relation to Resolutions 8, 9 and 10**

We have also been asked to consider the scenario post the Proposed Transaction whereby WHSP is the only entity that exercises its Warrants, WHSP is allocated 100% of the Placement shares under the related underwriting agreement and the Rights Issue is not taken up by any of the existing JKL Shareholders.

In this case, WHSP will end up with 45.4% interest in the issued capital of the Company on an undiluted basis.

We also note that based on the provisions of the Corporations Act, shareholders holding more than 20% of the issued capital of a company are deemed to also have an interest in any shares held on escrow by the company ("Deemed Interest"). Following completion of the Proposed Transaction, JKL will hold 223,861,896 shares on escrow. If the escrowed shares are added to WHSP's interest of 45.4% calculated based on the assumptions outlined above, the WHSP Deemed Interest will be circa 79%. It is relevant to note that this association only arises during the period that the shares are escrowed until 31 December 2021 and relevantly those shares can only vote in certain limited circumstances during that period.

We have set out below our fairness assessment under the circumstances above.

| Fairness assessment<br>Australian cents per share | *Section Reference* | Low | High |
|---|---|---|---|
| JKL Shares before the Proposed Transaction (control basis) | *8.1* | 7.97 | 12.22 |
| Merged Entity Shares after the Proposed Transaction (minority basis) [1] | *9.1* | 11.63 | 13.82 |
| Premium / (discount) | | 3.66 | 1.60 |
| Premium / (discount) (%) | | 45.9% | 13.1% |
| **FAIRNESS ASSESSMENT** | | **FAIR** | |

*Source: GTCF analysis*
*Note 1: Based on WHSP exercising its 208.5 million Warrants, the JKL Convertible Bonds not converting to Shares, 0% take up of the Rights Issue by existing JKL Shareholders and WHSP is allocated 100% of the Placement Shares.*

Given that the Proposed Transaction under these circumstances is fair, it would also be reasonable in accordance with ASIC RG111. We note that the significant uplift in the value of the Merged Entity Shares is driven by the exercise of the WHSP warrants at 14 cents per warrant.

## Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to vote in favour of the Proposed Transaction is a matter for each JKL Shareholder to decide based on their own views of value of JKL and expectations about future market conditions, JKL's performance, risk profile and investment strategy. If JKL Shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN
Director

JANNAYA JAMES
Authorised Representative

21 August 2018

# Financial Services Guide

## 1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by JKL to provide general financial product advice in the form of an independent expert's report in relation to the Proposed Transaction. This report is included in JKL's Notice of Meeting and Explanatory Memorandum.

### 2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

### 3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

### 4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance has received from JKL a fixed fee of A$165,300 (plus GST), which is based on a commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

### 5 Independence

Grant Thornton Corporate Finance is required to be independent of JKL in order to provide this report. The guidelines for independence in the preparation of independent expert's reports are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

*"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with* JKL *(and associated entities) that could*

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*reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Proposed Transaction.*

*Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.*

*Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.*

*Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."*

**6 Complaints process**

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

Financial Ombudsman Service Limited
GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 367 287

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

**Compensation arrangements**

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

## Contents

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# 1 Overview of the Proposed Transaction

## 1.1 Presidio Agreement and NHF Founders Agreement

JKL has entered into two separate Purchase and Sale Agreements with the Presidio Investors and the NHF Founders to purchase 100% of the common units of NHF outstanding immediately prior to completion of the Proposed Transaction for a total purchase price of US$53.0 million.

Under the terms of the Presidio Agreement, JKL will purchase 37.5% of the common stock of NHF for a cash consideration of US$26.5 million payable at completion.

Under the NHF Founders Agreement, JKL will purchase 62.5% of the common stock of NHF for a total consideration of US$26.5 million payable as outlined below:

- 215.1 million new JKL Shares to be issued at A$0.08 per share equivalent to A$17.2 million or US$13.2 million[17].
- The NHF Founders Loan, a vendor loan with a total face value of A$17.2 million or US$13.2 million[18].
- The NHF Founders Warrants totalling 122.9 million warrants with an exercise price of A$0.14 per warrant and an expiry date of 4 years after the issue. The NFH Founders Warrant can be exercised at any time within a 4 year period.

Whilst it does not form part of the consideration, we note that the Merged Entity will repay the NHF Founders Notes of US$10 million existing on NHF's balance sheet as at 31 December 2017 in four instalments, being US$1.0 million on completion of the Proposed Transaction and three further payments every six months of US$4.0 million, US$2.5 million and US$2.5 million over the following 18 months, subject to the consent of the Group's financiers.

Both the Presidio Agreement and the NHF Founders Agreement include the following conditions precedent (not exhaustive):

- Representations and warranties customary for a transaction of this type.
- Completion of the purchase of the remaining NHF Shares from the other party (either the Presidio Investors or the NHF Founders).
- Raising the necessary debt and equity funding planned under the Placement, Rights Issue and the Syndicated Acquisition Facility.
- Approval by JKL Shareholders to implement the Proposed Transaction.
- NHF obtaining approval from its lender Atalaya Special Opportunities Fund VI LP (if necessary).
- Key management, including Wattel and Siegel, signing employment agreements with NHF.

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[17] Based on the Deal Structure Exchange Rate
[18] Based on the Deal Structure Exchange Rate

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The Presidio Agreement and the NHF Founders Agreement will terminate, among other conditions, if the Proposed Transaction is not completed by 30 September 2018 unless this drop-dead date is extended by mutual agreement between the parties.

The NHF Founders have entered into the Escrow Deed until 31 December 2021 in the absence of a change of control transaction of JKL or other specific circumstances.

### 1.2 *NHF Founders' employment agreement*

As a condition precedent to the Proposed Transaction, the NHF Founders will enter into employment agreements for a three-year term in which Wattel and Siegel must continue to manage the NHF business. The employment agreements include restraint obligations following termination or expiration of the employment agreements.

Set out below are the key conditions of the NHF Founders' employment agreements.

- They will be entitled to a base salary based on commercial terms.

- They are entitled to receive a non-discretionary bonus payment of up to US$4,150,000 each, payable in five quarterly payments of US$830,000 with the first payment due on the last day of the first calendar quarter which commences after the date of the last payment (US$2.5 million) of the NHF Founders Notes expected to occur on or around 31 January 2020. Each payment is contingent on:

  - Current lender of NHF, Atalaya Special Opportunities Fund VI LP ("Atalaya"), providing consent for each payment. We note that each payment will be at Atalaya's absolute discretion. The Proposed Transaction also provides that the approval of the providers of the Syndicated Acquisition Facility is also required for these payments to be made.

  - At least US$50.0 million having been collected from the existing loan book as at 31 December 2017.

  - The total level of net loan receivables, which is the accounts receivable (gross) less provision for doubtful debts is as follows:

| Date<br>(US$m) | Net loan receivables |
|---|---|
| March 2020 | 175 |
| June 2020 | 180 |
| September 2020 | 190 |
| December 2020 | 199 |
| March 2021 | 209 |

  - The US$10 million NHF Founders Notes[19] issued to the NHF Founders have been repaid in full. We note that the NHF Founders Notes already existed on the balance sheet of NHF as at 31 December 2017.

[19] The US$ 10 million NHF Founders Notes are being paid in four instalments, being US$1.0 million on the closing of the transaction and subsequently every 6 months over the following 18 months, subject to the approval of the Group's financiers.

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- Mark Siegel will be eligible for a finder's fee up to maximum of US$150,000 each calendar year based upon adding at least one new viable Partner Provider each calendar quarter.

- In addition to the above, they are entitled to participate in a discretionary bonus scheme and performance schemes implemented by the Merged Entity.

### 1.3 *Syndicated Acquisition Facility*

One of the conditions precedent for the Company to enter into the Proposed Transaction is the raising of the Syndicated Acquisition Facility of A$42 million to fund the cash consideration and the transaction costs.

WHSP is a cornerstone investor in the Syndicated Acquisition Facility and it has provided A$25 million whereas the balance has been provided by other institutions and sophisticated investors.

We have outlined below the key terms of the Syndicated Acquisition Facility:

- Interest rate – 13% per annum with interest paid quarterly in arrears.

- Term – 4 years from the advance of the loan. The Company can repay the loan at any time after the end of year 3 at its option or before the end of year 3 by mutual agreement between the parties.

- Security – The Syndicated Acquisition Facility is secured with first ranking security over the assets and undertakings of JustKapital Limited and all of its subsidiaries except for JustKapital Financing Pty Limited, which includes the Disbursement Funding Business, and ranked second over NHF and its subsidiaries, behind the receivables facility of NHF.

- Warrants – the providers of the Syndicated Acquisition Facility will be issued 7.14 warrants per A$1.00 of the Syndicated Acquisition Facility which is equivalent to a total number of warrants to be issued of 299.9 million. The warrants have an exercise price of A$0.14 and they are exercisable at any time up to 4 years after commencement of the loan. These warrants can be exercised at any time within the 4 year period.

- WHSP will receive A$650K in cash and will be issued 30 million warrants with an exercise price of A$0.14 and a maturity of four years as cornerstone due diligence and advisory fee.

### 1.4 *Rights Issue and Placement*

One of the conditions precedent for the Company to enter into the Proposed Transaction is the raising of funds under the Placement and Rights Issue which we describe below.

- Placement of 93,750,000 new fully paid ordinary shares at A$0.08 per share to raise A$7.5 million before cost. The Placement is fully underwritten by PCP, a wholly owned subsidiary of WHSP.

- A 1:1 non-renounceable, pro-rata Rights Issue to enable existing shareholders to participate on the same terms as the Placement, which would raise up to A$11.8 million. JKL Management has assumed that 56,250,000 new fully paid ordinary shares at A$0.08 per share will be issued raising A$4.5 million before costs in the pro-forma financial information.

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## 1.5 *NHF Founders' intentions*

The NHF Founders' intentions in relation to the Merged Entity are set out in section "Current Management of NHF" of the Explanatory Memorandum.

## 2 Purpose and scope of the report

### 2.1 Purpose

Section 606 of the Corporations Act prohibits the acquisition of a relevant interest in the issued voting shares of a company if the acquisition results in the person's voting power in the company increasing from either below 20% to more than 20%, or from a starting point between 20% and 90%, without making an offer to all shareholders of the company.

Item 7 of Section 611 of the Corporations Act allows the shareholders not associated with the acquiring company (i.e. the Non-Associated Shareholders) to waive this prohibition by passing a resolution at a general meeting. Regulatory Guide 74 "Acquisitions agreed to by shareholders" ("RG 74") and Regulatory Guide 111 "Content of expert reports" ("RG 111") issued by ASIC set out the view of ASIC on the operation of Item 7 of Section 611 of the Corporations Act.

RG 74 requires that shareholders approving a resolution pursuant to Item 7 of Section 611 of the Corporations Act be provided with a comprehensive analysis of the proposal, including whether or not the proposal is fair and reasonable to the Non-Associated Shareholders. The Directors may satisfy their obligations to provide such an analysis by either:

- Commissioning an independent expert's report; or
- Undertaking a detailed examination of the proposal themselves and preparing a report for the Non-Associated Shareholders.

If the Proposed Transaction is completed, the NHF Founders will increase their collective shareholding interest in JKL from nil up to approximately 41.8% on an undiluted basis or up to 32.3% on a fully diluted basis. Accordingly, the Directors of JKL have engaged Grant Thornton Corporate Finance to prepare an independent expert's report stating whether, in its opinion, the Proposed Transaction is fair and reasonable to the JKL Shareholders for the purposes of Item 7 of Section 611 of the Corporations Act.

### 2.2 Basis of assessment

In preparing our report, Grant Thornton Corporate Finance has had regard to the Regulatory Guides issued by ASIC, particularly RG 111, which states that an issue of shares requiring approval under Item 7 of Section 611 of the Corporations Act should be analysed as if it were a takeover bid. Accordingly, we have assessed the Proposed Transaction with reference to Section 640 of the Corporations Act.

RG 111 states that:

- An offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison should be made assuming 100% ownership of the target company irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company.
- An offer is considered reasonable if it is fair. If the offer is not fair it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a

higher bid. ASIC has identified the following factors which an expert might consider when determining whether an offer is reasonable:

- The offeror’s pre-existing entitlement, if any, in the shares of the target company.

- Other significant shareholding blocks in the target company.

- The liquidity of the market in the target company’s securities.

- Taxation losses, cash flow or other benefits through achieving 100% ownership of the target company.

- Any special value of the target company to the offeror, such as particular technology and the potential to write off outstanding loans from the target company.

- The likely market price if the offer is unsuccessful.

- The value to an alternative offer or and likelihood of an alternative offer being made.

Grant Thornton Corporate Finance has determined whether the Proposed Transaction is fair to JKL Shareholders by comparing the fair market value of JKL Shares before the Proposed Transaction on a 100% control basis with the fair market value of JKL Shares after approval of the Proposed Transaction on a minority basis.

In considering whether the Proposed Transaction is reasonable to JKL Shareholders, we have considered a number of factors, including:

- Whether the Proposed Transaction is fair.

- The implications to JKL Shareholders if the Proposed Transaction is not approved.

- Other likely advantages and disadvantages associated with the Proposed Transaction as required by RG111.

- Other costs and risks associated with the Proposed Transaction that could potentially affect JKL Shareholders.

## 2.3 *Independence*

Prior to accepting this engagement, Grant Thornton Corporate Finance (a 100% subsidiary of Grant Thornton Australia Limited) considered its independence with respect to the Proposed Transaction with reference to the ASIC Regulatory Guide 112 “Independence of Expert’s Reports” (“RG 112”).

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Transaction other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Transaction.

### 2.4 *Consent and other matters*

Our report is to be read in conjunction with the Notice of Extraordinary General Meeting and Explanatory Memorandum dated on or around 21 August 2018 in which this report is included, and is prepared for the exclusive purpose of assisting JKL Shareholders in their consideration of the Proposed Transaction. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Extraordinary General Meeting and Explanatory Memorandum.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transaction to JKL Shareholders as a whole. We have not considered the potential impact of the Proposed Transaction on individual JKL Shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transaction on individual shareholders.

The decision of whether or not to approve the Proposed Transaction is a matter for each JKL Shareholder based on their own views of value of JKL and expectations about future market conditions, JKL's performance, risk profile and investment strategy. If JKL Shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

## 3 *Profile of the industry*

### 3.1 *Australian Disbursement Funding Industry*

The disbursement funding industry in Australia is niche within the financial services industry. Due to the limited available information on this niche industry, we have mainly relied on information provided by Management as the primary source of our commentary.

Disbursement funders in Australia typically provide funding solutions for third-party costs ("Disbursements") incurred during legal proceedings by small and medium-sized law firms, personal injury law firms, commercial litigation firms, and family law firms (collectively "SME Law Firms") for claims involving (but not limited to):

- Individual personal injury (including motor vehicle accidents);
- Compensation claims; and
- Medical negligence.

Most of the claims arise from motor vehicle accidents and professional medical negligence.

SME Law Firms, which are JKL's key clients, are usually engaged by a plaintiff to pursue a claim against an insurer or third party on a success fee basis, which means that the SME Law Firms are only paid out of the proceeds from the court decision or settlement between the parties.

Given SME Law Firms are typically capital constrained, they often seek to minimise any out of pocket expenses by engaging disbursement funders to pay the disbursements required in legal proceedings. The disbursements typically include medico-legal reports, radiology reports, filing fees, and all other expert reports.

Upon payment of the disbursements, the JKL will invoice the law firm inclusive of a mark-up. This invoice only becomes payable either upon conclusion of the case, or after a prescribed period of time. This reduces the working capital requirements for SME Law Firms allowing them to pursue a larger number of cases. In the majority of cases, claims are settled within the first two-years, however certain cases may take up to four years or more to conclude.

The funding provided by disbursement funders addresses the market demand whereby the client or law firm is either unable, or unwilling, to fund disbursements directly.

There are a number of mitigating factors that substantially reduce the downside risk of the disbursement funder:

- SME Law Firms are only paid on a success fee basis from the plaintiff and accordingly they undertake significant due diligence on the likelihood of success before taking on a new case.
- In almost all claims, the defendants are insured either via compulsory third party insurance in the case of motor vehicles accidents or medical insurance in the case of medical negligence.

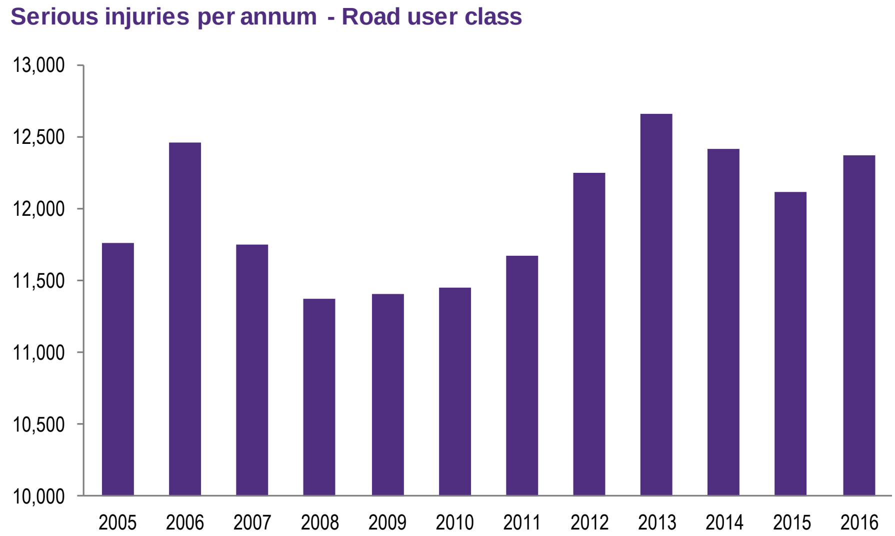
The market size is estimated at approximately A$150 million and the Industry is highly fragmented[20]. As indicated by JKL Management, the Company retains approximately one third of the market share available and its key competitor is estimated to have a market share of around 40%.

### 3.1.1 Key demand drivers

Demand for disbursement funding is driven by a number of factors including:

- The number of cases that require disbursement funding, such as
  - *Individual personal injury (including Motor Vehicle accidents)* – Individuals are able to make a claim for personal injury compensation under the Comprehensive Third Party scheme ("CTP") for the costs of treatment and lost earnings as a result of a motor vehicle accident. In addition, individuals can claim compensation from other injuries including work-related injuries and injuries resulting from the use of a public space (e.g. shopping centres).

    As outlined in the graph below, the number of serious injuries in motor vehicle accidents since 2005 has varied between 11,000 and 12,500 per annum.




*Sources: RTA*

*Note: 2005 data are based on the date the crash occurred and differs from subsequent years, which are based on when the crash was recorded.*

  - *Medical negligence* – Laws relating to medical negligence allow a person to claim for compensation if they have suffered physical, psychological or financial harm as a result of negligent medical treatment.

- Awareness of the industry's services. The disbursement funding industry is relatively fragmented with varying service levels and offerings between different disbursement funding firms. Awareness of the services offered therefore may be low due to this fragmentation. Increasing awareness may increase the demand for the industry.

[20] JustKapital ASX announcement regarding the acquisition of Macquarie Medico Legal business dated 22 January 2016.

- Legal & regulatory environment. Fees for medico-legal reports are regulated at the state level. Accordingly, JKL may be impacted by changes to regulation regarding the amount that doctors can charge for medico-legal reports, which could result in a lower dollar value return per invoice for JKL.

- Economic and population growth in Australia. A growing population and greater economic activity may lead to a growth in claims. The Australian economy is forecast to grow at an annualised rate of between 3% and 3.25% to 2019/20[21] and population is expected to grow at a CAGR of c. 1.1% to 2056, compared to a growth rate of 1.3% in the 20 years to 2012[22].

## 3.2 *United States Health Insurance and Medical Lien Purchasing Industry*

NHF operates in the medical lien purchasing industry in the United States, with operations in 19 states across the country. In the US, people involved in personal injury accidents (most are due to motor vehicle accidents) often require medical treatment and may not be able to fund these services via their health plans or Medicare/Medicaid. Accordingly, the plaintiff and their attorneys working on the cases have a number of options:

- There is an increasing number of physicians and other medical providers who are willing to provide services on a lien basis. Under these circumstances, the doctors need to wait for the case to conclude before being paid.

- There are a number of third party service providers to connect attorneys and their clients with physicians who work on liens. These intermediaries have in-depth relationships with attorneys and they provide an introduction to their network of doctors.

- They can engage financial intermediaries like NHF. These financial intermediaries arrange for the medical treatment to be provided and purchase the lien from the doctors, allowing them the chance to recoup up to the full face value of the medical treatment invoice when and if the case concludes.

The services provided by NHF and its competitors are particularly valuable for medical providers as they are able to collect their fees up-front, and at a rate which is often higher than the negotiated fee paid by health insurers (if the plan responds) or Medicare/Medicaid. In addition, medical providers are less vulnerable during cross-examination as they have no financial interest in the outcome of the case. Conversely, medical providers working on a lien basis need to wait for a successful conclusion of the legal proceeding before being paid and accordingly may be perceived as conflicted during the court process.

The plaintiffs who engage the services of NHF or its competitors, or the doctors directly (who agree to work on a lien basis), are typically people with personal injuries without health insurance or with limited coverage under their insurance policies, or the policy excludes the treatment of injuries as result of motor vehicle accidents. Accordingly, it is particularly critical to understand how the US healthcare system is structured.

### 3.2.1 Overview of the United States Health Insurance system

In the United States, health insurance is available to individuals in the form of private plans and government-provided plans. Private plans consist of employment-based insurance plans and individual

[21] RBA Statement on Monetary Policy – February 2018
[22] Australian Bureau of Statistics ("ABS") Population Projections, Australia, 2012 (base) to 2101 - Series B.

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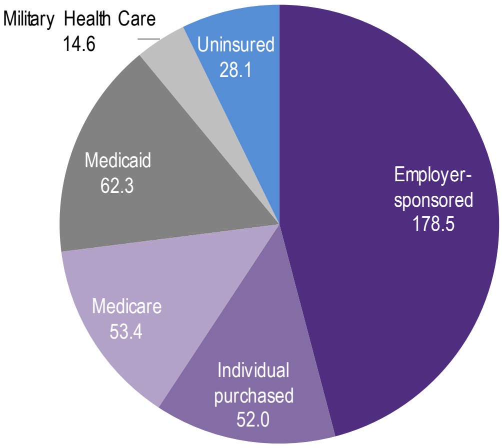
purchased insurance plans, and these provide coverage for approximately 216 million or c. 67.5% of the 320 million population. Government-provided plans include Medicare, Medicaid and military health care plans, which provide coverage for approximately 119 million Americans or c. 37.3% of the population[23]. As at 2016, there were approximately 28 million uninsured Americans, accounting for 8.8% of the population[24]. We note that the number of health insurance policies is greater than the total population as some people may have more than one policy.

**US Breakdown of health insurance coverage - Policies in 2016[1,2] (million)**




*Source: United States Census Bureau – Health Insurance Coverage in the United States: 2016*
*Notes:1. The chart shows the number of health insurance policies issued in USA. This may not reconcile with actual number of people insured since coverage types are not mutually exclusive (i.e. a person can have more than one type of coverage); 2. 28.1 million is the actual number of people uninsured.*

NHF clients come from all categories of people, including those with health insurance, the uninsured, and those with Medicare and Medicaid as most health policies do not provide coverage as a result of a motor vehicle accident, or where there is another kind of insurance policy to pay the claim.

**Uninsured**

In 2016, approximately 8.8% of the population were uninsured. The rate of uninsured people in the United States has declined rapidly since 2013, when people without insurance made up 14.5% of the population. The sharp decline in the uninsured population is a result of the implementation of healthcare reforms including the expansion of Medicaid and legislation mandating that children be permitted to stay on their parents' health insurance until age 26.

The table below shows the uninsured rate over the period 2008 to 2016.

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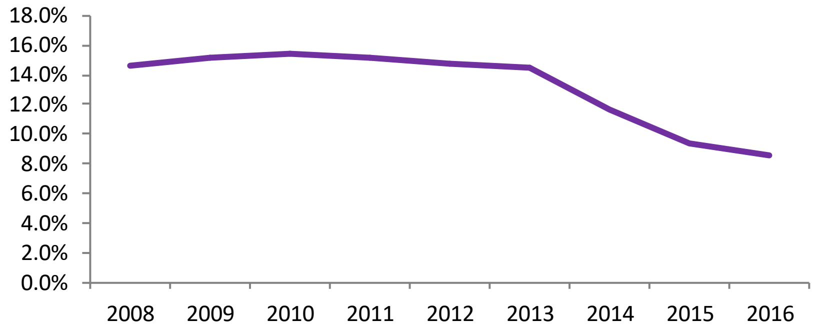
23 United States Census Bureau – Health Insurance Coverage in the United States: 2016
24 The types of coverage are not mutually exclusive and therefore people can be covered by more than one type of health insurance

## US Uninsured as a % of the population




*Source: United States Census Bureau – Health Insurance Coverage in the United States*

Uninsured people have no health insurance and therefore have no limit to the out of pocket expenses ("OOP") that they may incur for healthcare. Accordingly, uninsured people typically have to pay for the full cost of any medical treatment they incur. All health plans, however, have a cap on the maximum amount of OOP expenses the beneficiary can incur, except for traditional Medicare plans.

**Government-based plans**

Government-based plans include Medicare and Medicaid, which are briefly discussed below. However, we note that Medicare and Medicaid may only be used as payers of last resort for personal injury cases after all other payments options have been considered.

*Medicare*

Medicare is a national health insurance program administered by the United States federal government that provides health insurance to Americans aged 65 years and older[25] and people aged under 65 with permanent disabilities[26]. In 2016, approximately 53.4 million Americans had Medicare coverage. Medicare provides protection against the costs of many basic health care services, however many benefit gaps exist[27]. As a result, approximately 87% of Medicare beneficiaries receive supplemental coverage such as Medicare Advantage, employer-sponsored retiree health plans, Medicaid and Medigap[28].

*Medicaid*

Medicaid is a joint federal and state funded program that provides health coverage to eligible low-income families or individuals. Medical care is typically provided for free or at low-cost with some states imposing co-payments, co-insurance, deductibles and other similar charges on Medicaid-covered benefits, although cost sharing for most services is limited to nominal or minimal amounts[29]. As at 2016, 62.3 million Americans were covered by Medicaid. Eligibility criteria vary by state but are typically based on an individual's income as a percentage of the federal poverty level ("FPL"). The Patient Protection and Affordable Care Act ("ACA"), which became law in 2010, sought to require all states to expand Medicaid

[25] Medicare is provided to people aged 65 years and older regardless of income, medical history or health status
[26] Henry J Kaiser Family Foundation – An Overview of Medicare
[27] Traditional Medicare has relatively high deductibles and cost-sharing requirements and places no limit on beneficiaries' out-of-pocket spending. Medicare also does not cover a number of other services including long-term services and supports, dental services, eyeglasses, and hearing aids that are important for older people and people with disabilities.
[28] Henry J Kaiser Family Foundation – An Overview of Medicare
[29] Medicaid.gov – Cost Sharing Out of Pocket Costs

eligibility to all adults with incomes up to 138% of the FPL. However, the Supreme Court deemed this unconstitutional and left the decision of whether to expand Medicaid to each state. Currently 33 states[30] have adopted the Medicaid expansion, with 4 states considering expansion and 14 states not adopting the expansion[31].

Medicaid provides a number of federally-mandated benefits across all states including inpatient and outpatient hospital services, doctor visits, long-term medical care and more[32]. As well as federally mandated benefits, states can choose to provide coverage for a number of additional optional benefits.

**Private plans**

Private healthcare in the United States is the most prevalent form of health insurance at 67.5% coverage[33] and consists of employer-sponsored insurance and individual based insurance. Whilst commonly it would be unusual for people with private healthcare to incur the services of a doctor on a lien basis sometimes it is required as the doctor provided by the insurance company may not be willing to be involved in a court case.

### 3.2.2 United States Medical Lien Purchasing Industry

NHF predominantly purchases medical liens related to motor vehicle accident ("MVA") and other non-MVA tort claims[34]. JKL Management estimates the addressable market for the medical lien purchasing industry for tort claims to be c. US$19.7 billion. The United States medical lien purchasing market is a highly fragmented market with the number of service providers varying between states. This is the result of a number of factors including differences in regulation, access to health insurance, population levels and accident rates between states, and individual health insurance adoption rates.

Healthcare in the United States is comparatively expensive[35], and unlike Australia, where universal health care is provided to all citizens, in the United States, approximately 8.8% of people are uninsured and therefore do not have access to health care[36]. For the remainder that do have health insurance, the level of coverage varies considerably between individuals, and many have benefit gaps that can leave them with large OOP expenses when receiving medical care which offers an opportunity to medical providers willing to provide services on lien.

Doctors and other medical providers that operate on a lien basis typically have to wait until conclusion of the case to be paid, a period which can extend from several months to a few years. However, lien purchasing companies purchase the doctors' invoice up front at a discount (from the medical practioner) in return for the expectation that up to the full invoiced amount will be paid at the conculsion of the case.

### 3.2.3 Key demand drivers

Demand for healthcare lien purchasing is driven by a number of factors including:

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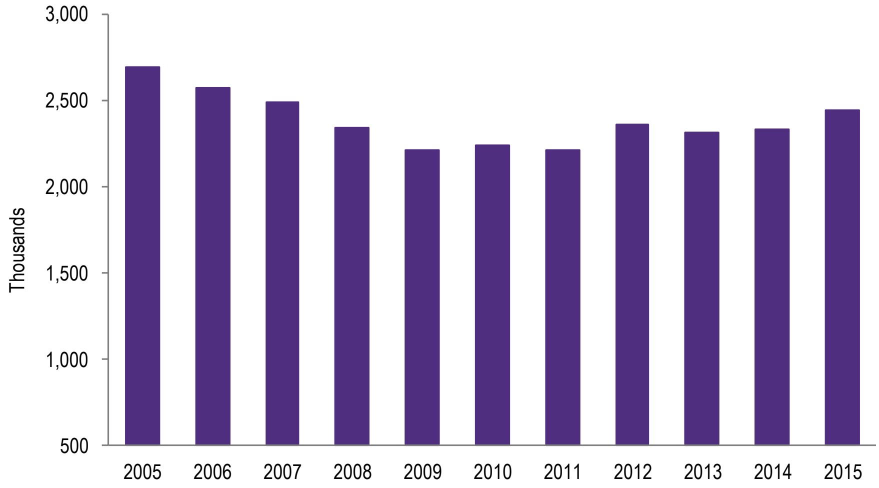
30 Including Washington D.C.
31 Henry J Kaiser Family Foundation – Status of State Action on the Medicaid Expansion Decision
32 Medicaid.gov – List of Medicaid Benefits
33 United States Census Bureau – Health Insurance Coverage in the United States: 2016
34 Motor vehicle accidents make up approximately 80% of tort claims in the United States
35 According to OECD data on health spending, In 2017 Americans spent an average of US$9,892 per capita on health, more than any other OECD country, and 2.3 times the OECD average
36United States Census Bureau – Health Insurance Coverage in the United States: 2016

- *The number of motor vehicle accidents* – As highlighted in the graph below, traffic-related injuries has remained substantially flat in the last five years.

**USA - Traffic-related injuries per annum**




*Source: National Center for Statistic and Analysis*

We note that future technological improvements (such as driverless vehicles) may reduce the number of motor vehicle accidents and improved car crash protection features may reduce the rate and severity of motor vehicle accidents in the future, corresponding to a lower number of motor vehicle accident claims.

- *Health Insurance levels* – increasing health insurance levels as a result of expanding Medicare and Medicaid coverage may reduce the demand from doctors for lien purchasing. However, the effect may be limited since Medicare and Medicaid, which are insurers of last resort for personal injury cases, do not cover the full cost of healthcare for accident victims leaving the medical care provider's payment for their services subject to the uncertainty at the conclusion of the case. In addition, the majority of healthcare plans in the United States, including private plans, will not cover medical expenses related to automobile accidents when the parties involved have car insurance. In addition companies are favouring high deductible health plans ("HDHP")[37] due to rising healthcare costs which may lead to more people using medical liens if they consider themselves to be the not-at-fault party rather than paying the higher expenses associated with a HDHP plan and reducing available savings for future healthcare expenditure.

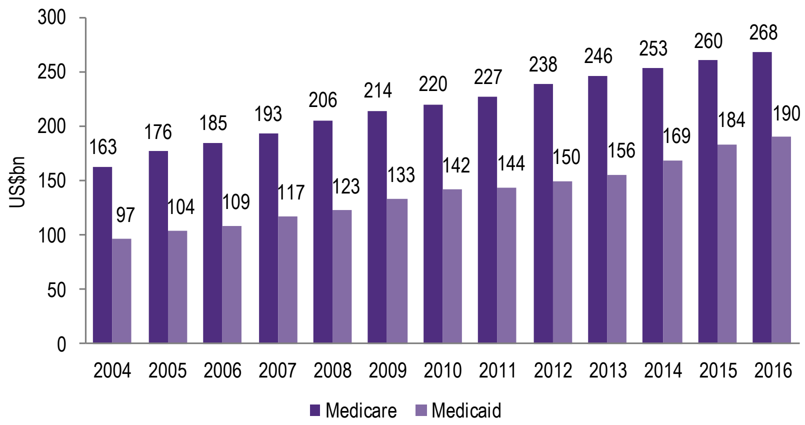
- *Change in the regulatory system* – The United States health care industry is currently subject to intense scrutiny and uncertainty. Whilst the current administration has repeatedly threatened to repeal the Affordable Care Act, it has not done so yet, however it has implemented a number of policies which have destabilised key aspects of the Affordable Care Act. Future changes to the healthcare system in the US may impact NHF's business and financial performance, either positively or negatively.

- *Healthcare costs* – In order to reduce healthcare costs, health plans usually exclude significant medical fees and include out-of-pocket expenses such as deductibles, co-payment and coinsurance fees which may affect the decision of individuals, such as not-at-fault accident victims, to adopt a medical lien payment approach if they are unable to afford the necessary healthcare as a result of an accident.

[37] HDHP is a health insurance plan with lower premiums and higher deductibles.

Healthcare costs are expected to grow by 5.3% in 2018 and an annual average rate of 5.5% over the period 2017 to 2026[38].

Hospital Medicare/Medicaid expenditure per annum




*Source: Center for Medicare & Medical Services*

- *Auto-insurance regulation* – Changes to state auto-insurance regulation such as minimum car insurance liability coverage levels could affect the amounts that can be claimed from an accident.

- *Awareness of the industry's services* – The industry is relatively fragmented which has limited its awareness. Increased expansion and awareness of the industry's services may drive higher adoption rates.

### 3.2.4 Competitive landscape

Based on NHF Management estimates, among its competitors, NHF has the third largest amount of receivables and third largest geographic footprint in terms of number of states in the US[39]. NHF mainly competes with the following companies:

- *Key Health Medical Solutions ("Key Health") 46 states,* founded 1996 - Key Health offers disbursement funding in several of NHF's markets and has approximately US$120 million of accounts receivable[40] The company has a robust financial backing and is a subsidiary of Oasis Legal Finance which offers legal funding on a more diversified basis for auto and work-related accidents.

- *Banyan Finance ("Banyan") 38 states, founded 2002* – Banyan provides medical-based receivables purchasing as well as private equity investments. A core characteristic of Banyan's business model is the ability to provide payments in 48 hours. Banyan has an estimated US$150 million in receivables[41].

[38] US Centers for Medicare and Medicaid Services – National Health Expenditure Projections 2017-2026
[39] NHF management has estimated the account receivables for the first three competitors to be approximately between US$30 million and US$120 million as at FY16.
[40] NHF Management estimate
[41] NHF Management estimate

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- *Medfin Manager ("Medfin") 18 states, founded 2000* – Medfin differentiated itself by offering high-end medical care funding to include extensive in-patient surgery, hospitalisation and comprehensive outpatient surgical procedures. It has an estimated US$30 million in receivables[42].

- *Canyon MB Holdings ("Canyon") 6 states, founded 2003* – Canyon has financed over 100,000 medical bills and has developed an online platform to improve the processing speed of its clients' claims. The company started in Nevada in 2003 and has c. US$50 million[43] in receivables..

- *Injury Care Solutions ("Injury") 3 states, founded 2004* – Injury is a medical funding company specialising in personal injury cases. It offers an online portal for medical record access. The company is based in Colorado and has expanded its operations to Tennessee and New Mexico.

- *Marrick Medical Finance ("Marrick") 2 states, founded 2007* – Marrick has an estimated $30 million[44] in medical receivables related to personal injury cases and has developed a proprietary online platform which serves as a hub for all case-related information. The firm focuses on Colorado and Arizona.

[42] NHF Management estimate
[43] NHF Management estimate
[44] NHF Management estimate

# 4 Profile of JKL

## 4.1 Introduction

JKL's main business is disbursement funding, which funds disbursements required by lawyers to progress their clients' claims in a legal proceeding. JKL pays the disbursements directly to the service provider, charges a standardised mark-up and immediately invoices the law firm once the disbursement expenses are paid. The disbursements include payments for medico-legal reports, radiology reports, filing fees, barristers' fees and all other expert reports. JKL generally receives payment out of the settlement proceeds from the conclusion of the case. JKL also has a new short-term lending product which offers its law firm clients a bridging facility for their professional fees between settlement of the matter and receipt of funds into their trust accounts.

JKL also provides insurance broker services for "after the event" (adverse cost) insurance which is placed with overseas insurers. However, this is currently a small component of the overall business.

JKL has a litigation funding business ("Litigation Funding Business" or "Litigation Portfolio") but the Directors have recently resolved to exit this business which accordingly it has classified as "Assets held for sale" in its financial statements. This division funds all the fees and disbursements associated with large-scale litigation. The litigation funding business is in "run off" in that the existing cases will be funded to completion and no new cases will be funded. It is no longer "held for sale" and this will be re-categorised (as intangibles) at 30 June 2018.

## 4.2 Business operations

### 4.2.1 Disbursement Funding Business

In January 2016 JKL acquired the disbursement funding business Macquarie Medico Legal & Radiology ("MML") for A$17.9 million[45]. JKL have subsequently grown the gross receivables[46] from A$15m[47] (predominantly NSW based) to c.A$36 million in four states as outlined in the graph below. The Disbursement Funding Business currently has over 10,000 funded cases across 160 clients.

[45] In the ASX announcement dated 22 January 2016, JKL announced that it had completed the acquisition of MML for A$19.3 million. Subsequent to this, JKL advised that following negotiations with the vendor, the purchase price reduced to $17.9 million.
[46] The gross amount is not impacted by the changes in accounting standards hence it is a reliable representation of performance of the disbursement & STL funding division.
[47] In the ASX announcement dated 22 January 2016, JKL announced that it acquired MML's debtor book of approximately A$19 million. Subsequent to this, JKL wrote off c. A$3.8 million of the MML debtor book.

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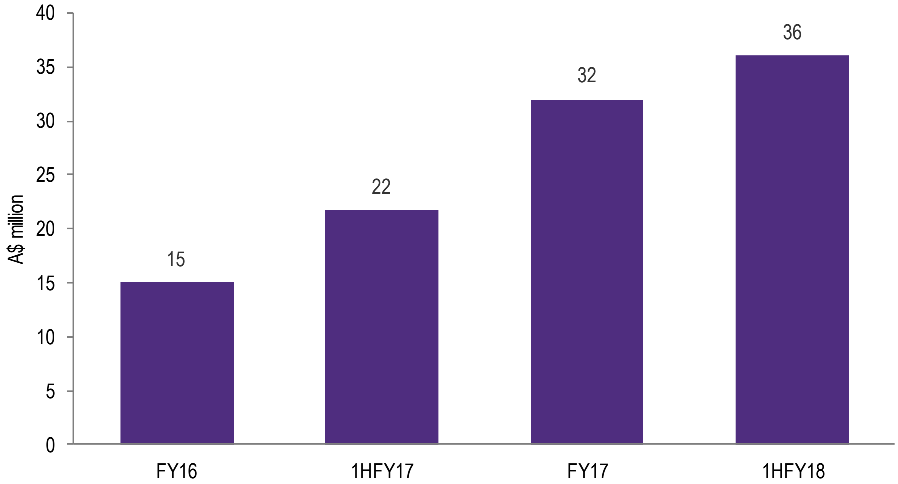
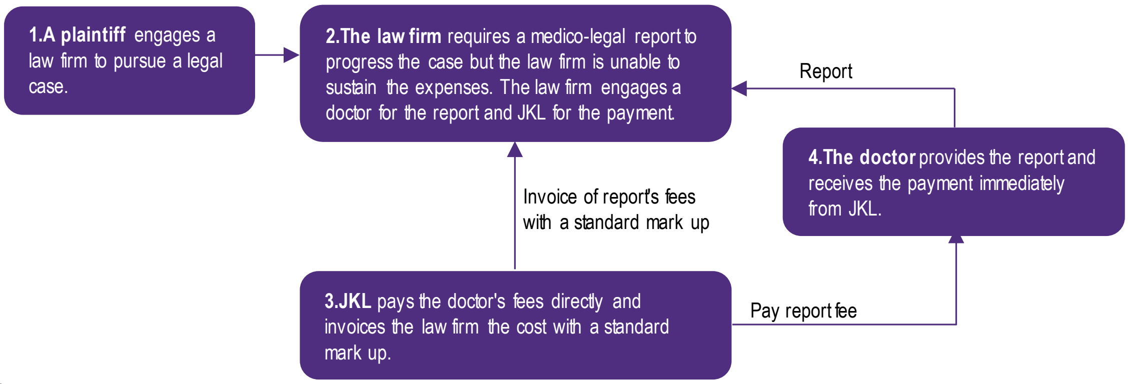
JustKapital - Disbursement funding loan receivables (gross)




*Sources: JKL financial reports*
*Note: 1. FY defines the financial year ending the 30 of June; 2. 1HFY defines the first half of the financial year ending the 31 December.*

The Disbursement Funding Business offers financing support for disbursements to SME Law Firms but it excludes funding for the legal fees related to the case and any medical treatment for the plaintiff. The following flow chart shows the Disbursement Funding Business process.

JKL – Disbursement funding business




*Source: JKL Management*

JKL pays for the disbursement and immediately issues an invoice to the law firm for the cost of the disbursement plus a standard mark up. This invoice only becomes payable by the law firm upon conclusion of the underlying case, which on average takes 18 months[48]. The law firms and not the plaintiff are liable for payment of the invoices regardless of the outcome of the claim.

JKL's downside risk on each case is limited as it has developed strong relationships with law firms (key referrers) and it has a guarantee in place with the law firm for the face value amount of its outstanding invoices (i.e. including the mark-up). In addition, law firms undertake significant due diligence before taking

[48] As per JKL 1HFY18 Interim Financial Report.

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on a case as they are only paid if the case succeeds. As a result, JKL's provision for discounts and doubtful debts is only circa 11%[49].

JKL finances the Disbursement Funding Business through a revolving debt facility provided by Assetsecure Pty Limited ("Assetsecure Facility") which was recently increased to A$35 million to support the expansion of the business. As at 31 December 2017 JKL had drawn circa A$23 million from this facility.

Assetsecure finances 70% of the face value of total outstanding invoices unless the gross loan receivables are more than 3 years old or more than 15% of gross loan receivables are with one law firm. Under these circumstances, the invoice is not eligible to be funded under the Assetsecure Facility. On average, JKL has a net funding rate of 63% of the face value of outstanding invoices.

The short-term lending ("STL") product only accounts for circa 3% of the gross receivables amount as at 31 December 2017. The STL product is a new product offering which provides funding to law firms that have settled a case, but are still waiting payment of the proceeds from the insurers. This period between case settlement and payment from insurers is typically around 90 days. The STL business was founded in September 2016 and it is currently at an early stage of operations. JKL has secured a revolving debt facility of A$5 million with Assetsecure. As at 31 December 2017 no amount was drawn down under this facility.

### 4.2.2 Insurance Broking division

The insurance policy broking service was established in September 2016. This division provides insurance broking services for adverse costs order insurance and security for costs deeds, earning broker fees and commissions for policies placed. The insurance policies sold provide protection for a plaintiff or defendant who loses a case and has adverse costs awarded against them. The segment has only one dedicated employee and since inception seven policies have been placed.

### 4.2.3 Intangibles – Litigation Funding Business

This division provides finance to claimants to progress their claim. If the litigation is successful, JKL earns a fee and it will also be reimbursed the costs paid to progress the dispute, both of which are payable from the sums recovered in the litigation. The fee is generally a percentage between 25% and 40% of the settlement or judgment proceeds[50]. If the litigation is unsuccessful, the Company is not paid any fees and it does not recover any costs. JKL has the ability to exit the funding arrangement at any time subject to providing an appropriate notice period. Typical cases funded include shareholder class actions and commercial litigation.

JKL has funded 11 cases in total. As at the date of this report, one case has conditionally settled subject to Federal Court approval and three cases have settled with Federal Court approval[51], while the 7 remaining cases are currently ongoing

[49] As per the latest actuarial analysis conducted in accordance with AASB9 and used for reporting purposes as at 31 December 2017. We understand this actuarial analysis relates to the period from the acquisition of the JKL Disbursement Funding Business in January 2016 to 31 December 2017.

[50] The seller of the litigation funding portfolio which was acquired by JKL in July 2016 is entitled to receive 50% of all proceeds over A$4 million from the free-carry component of the litigation funding portfolio which ranges between 10% and 15% of the proceeds for each case.

[51] One case received Federal Court approval on 18 April 2018; the other 2 cases received Federal Court approval on 26 July 2018

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Within the Litigation Funding Business, JKL has a joint venture with Longford Capital Management LP ("Longford") where JKL co-invests with Longford in litigation funding. Longford and JKL have co-funded seven cases.

In December 2017, JKL entered into a transaction to transfer its Litigation Portfolio into a trust to be managed by an entity associated to Mr. Philip Kapp, the former Chairman and Managing Director of JKL (the "Trust Transaction"). This transaction was aborted in March 2018 as one of the conditions precedents could not be met. however, JKL remains committed to exiting the Litigation Funding Business. Following the termination of the Trust Transaction, JKL was contacted by several entities interested in the Litigation Portfolio and on 17 July 2018 the Company announced it had signed a facility agreement with Fortress and its associates to fund JKL's future funding obligations for 5 cases within the Litigation Portfolio. Fortress will be entitled to a proportion of JKL's profits from the success of these 5 cases.

Regarding the 3 remaining cases, JKL Management has advised that one does not require any further funding and two can be funded from JKL cash flow. Management has indicated that it anticipates a successful exit by late 2019, or early 2020 with the proceeds used to repay the related corporate debt.

The exit from the litigation business is still core to the refocusing strategy of the Company. JKL plans to utilise the proceeds from the completion of the cases to repay the A$16.4 million debt facilities associated with funding the litigation portfolio and the A$2 million vendor loan related to the acquisition of MML, as summarised in the table below.

| Debt to be repaid from Litigation Portfolio proceeds | | | | |
|---|---|---|---|---|
| A$m | Facility Limit | Amount drawn[1] | Expiry date | Interest rate |
| Lucerne Finance[2] | 7.0 | 7.0 | 31-Dec-19 | 13.50% |
| Lucerne Composite Master Fund loan[2] | 7.0 | 6.4 | 31-Dec-19 | 13.50% |
| Lucerne WC loan | 3.0 | 3.0 | 12-Jan-20 | 7.95% |
| Vendor Loan[3] | 2.0 | 2.0 | 22-Jan-19 | 7.50% |
| **Total** | **19.0** | **18.4** | **na** | **na** |

*Sources: JKL Management and financial reports.*
*Note: 1. As at 30 April 2018; 2.The two facilities are defined collectively as Lucerne Group[52]; 3. Debt associated with the acquisition of MML in January 2016.*

In addition to the above, JKL has also issued the JKL Convertible Bonds to Lucerne and other sophisticated investors with a face value of A$5 million in July 2016. Lucerne and the other sophisticated bondholders recently extended the maturity date of the JKL Convertible Bonds from 16 July 2018 to 15 January 2019.

## 4.3 Financial information

### 4.3.1 Change in accounting standards

For the 1HFY18 Interim Financial Report the Company decided to early adopt accounting standard AASB9 'Financial Instruments' otherwise mandatory from 1 July 2018[53].

[52] JKL released ASX announcement on 18 December 2017
[53] The Company has also early adopted the AASB 15 accounting standard however it has assessed that the nature of its disbursement funding business does not meet the definition of a contract with a customer under the AASB 15 accounting standard.

This new standard affects both the consolidated statement of comprehensive income and the consolidated statement of financial position through the accounts related to the Disbursement Funding Business as the arrangements meet the definition of financial assets.

For the Disbursement Funding Business, the change in accounting standards results in the revenue and cost of services being recognised evenly over the expected time to collect on outstanding receivables rather than recognising these amounts immediately upon creation of the receivables (as per the original accounting policy).

Regarding the loan receivables, in the case of a disbursement funding arrangement, the fair value of the loan receivable differs from the transaction price. The fair value of the receivable represents the invoice amount, adjusted for such factors as time value of money, discounts and write offs, whereas the transaction price of the receivable is the amount of cash paid to fund the legal disbursement costs. The difference between the fair value and the transaction price ("Day 1 Margin") is deferred and recognised in the profit and loss statement on a systematic basis over the term of the arrangement[54] using actuarial methodologies and assumptions.

In regard to JKL's adoption of the new standard, we note the following:

- JKL restated the half-year accounts ending 31 December 2016 for comparison purpose with the half year ending 31 December 2017. In 1HFY17, the Company de-recognised circa A$8.3 million of revenue which are to be distributed equally over the next 30 months. As a result, the net revenue for 1HFY17 reduced from A$7.6 million to A$1.4 million and the reported loss for the period increased from A$0.4 million to A$2.6 million. The increased loss is only driven by timing differences, which will be re-couped from an accounting perspective over the next 30 months, however, it does not impact the cash flows generated from the operations.

- A comparison of the financial information at 1HFY18 with historical financial data is limited to the financial statements for which the company has provided restatement accounts.

- JKL has engaged an independent actuary to assess the amortisation period of the Day 1 Margin. The independent actuary has established a 30 month period as the time over which JKL will recognise the income arising from a disbursement funding transaction.

4.3.2 Financial Performance

The table below illustrates the Company's consolidated statements of comprehensive income for the 1HFY17 and 1HFY18.

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| Consolidated statements of comprehensive income for the period | 1HFY17[1] A$'000 | 1HFY18[1] A$'000 |
|---|---|---|
| Net revenue from disbursement funding | 1,413 | 2,561 |
| Disbursement funding costs and other cost of goods sold | - | - |
| Non-supplier related cost of sales | (18) | (136) |
| **Gross margin** | **1,395** | **2,425** |
| Other income | 138 | 308 |
| Expenses | | |
| Employee benefits expense | (1,091) | (1,422) |
| Administration and other expenses | (1,160) | (1,100) |
| Business purchase /selling expenses | (475) | (2,207) |
| Finance costs | (1,225) | (2,531) |
| **Income/(loss) before income tax benefit** | **(2,418)** | **(4,527)** |
| Income tax benefit | (202) | 728 |
| **Total comprehensive income/(loss) after income tax** | **(2,620)** | **(3,799)** |

*Sources: Company's annual and semi-annual financial reports.*
*Note: 1. The 1HFY17 and 1HFY18 accounts have been prepared following the accounting standard AASB 9.*

In relation to the above we note the following:

- The net revenues from the Disbursement Funding Business are the only significant source of income for the Company. The net revenue increase from 1HFY17 to 1HFY18 is in part explained by the recognition of the revenues under the AASB 9 standard.

- The loss after tax of circa A$3.8 million was affected by the following non-recurring expenses: circa A$1.9 million related to due diligence expenses regarding the original proposed acquisition of NHF and circa A$0.3 million associated with the sale of the litigation assets.

4.3.3 Financial Position

The consolidated statements of financial position for JKL as at 31 December 2017 is summarised below:

| Consolidated Statement of Financial Position | 1HFY18[1] A$ '000 |
|---|---|
| ***Assets*** | |
| *Current Assets* | |
| Cash and Cash equivalent | 1,909 |
| Loan and other receivables | 9,071 |
| Prepayments | 69 |
| Assets classified as held for sale | 15,302 |
| **Total current assets** | **26,351** |
| *Non-current assets* | |
| Loan and other receivables | 16,178 |
| Investment held in joint operation | - |
| Property plant and equipment | 188 |
| Goodwill | 5,943 |
| Intangible assets | 1,042 |
| Deferred tax[2] | 6,389 |
| **Total non-current assets** | **29,740** |
| **Total assets** | **56,091** |
| ***Liabilities*** | |
| *Current liabilities* | |
| Trade and other payables | 1,730 |
| Borrowings | 5,000 |
| Employee benefits | 99 |
| Deferred consideration | - |
| Liabilities directly associated with assets classified as held for sale | 3,059 |
| **Total current liabilities** | **9,888** |
| *Non-current liabilities* | |
| Borrowings | 37,194 |
| **Total non-current liabilities** | **37,194** |
| **Total liabilities** | **47,082** |
| **Net assets** | **9,009** |
| ***Equity*** | |
| Issued capital | 23,934 |
| Reserves | 2,178 |
| Accumulated losses | (17,103) |
| **Total equity** | **9,009** |

*Sources: Company's semi-annual financial reports.*
*Note: 1. The FY18 accounts have been prepared following the accounting standard AASB 9; 2. Deferred tax assets relate to c. A$23 million in tax losses*

We note the following in relation to JKL's financial position:

- The assets classified as held for sale at 1HFY18 relate to the Litigation Portfolio. The carrying value of A$15.3 million is based on the original case investment and capitalised JKL overheads associated with managing the cases.
- The deferred tax assets at 1HFY18 are entirely related to the accumulated tax losses.
- The reported goodwill is related to the acquisition of MML in 2016.

- Receivables related to the Disbursement Funding Business consist of c.A$7.7 million in current receivables and c. A$16.2 million in non-current receivables, which are reported on a carrying value basis following adjustments for doubtful debts and fair value as assessed by an independent actuary. Other current receivables consist predominantly of short-term loans of c. A$1.4 million.

- The table below illustrates JKL's borrowings:

| JKL borrowings | *Note* | Maturity | As at 31 Dec 2017 | Pro-forma adjusted 31 Dec |
|---|---|---|---|---|
| JKL Covertible Bonds | *Note 1* | 15-Jan-19 | 5,000 | 5,000 |
| Assetsecure Facility | *Note 2* | 30-Sep-20 | 23,194 | 23,194 |
| Vendor Loan | *Note 3* | 22-Jan-19 | 2,000 | 2,000 |
| Lucerne Loans | *Note 4* | 31-Dec-19 | 12,000 | 13,400 |
| Lucerne Working Capital Facility | *Note 5* | 12-Jan-20 | - | 3,000 |
| **Total** | | | **42,194** | **46,594** |

*Source: JKL Management*

*Note 1* – Issued on 15 July 2016 to fund the acquisition of litigation funding cases.

*Note 2* – Utilised to fund the disbursements.

*Note 3* – Related to the acquisition of MML in January 2016.

*Note 4* – In April 2018 JKL extended the facility limit from A$12 million to A$14 million and has drawn down A$13.4 million to date.

*Note 5* – Additional working capital from Lucerne provided in January 2018.

As at 31 December 2017, notwithstanding that JKL has low level of cash reserves, JKL's Directors assessed that the Group will be able to continue as a going concern due to its various financing facilities, the expected cash proceeds from the finalisation of the Litigation Portfolio and expected cash from the first case settlement which occurred in April 2018[55].

#### 4.3.4 Cash Flow Statement

JKL's cash flow statements for 1HFY17 and 1HFY18 are presented below:

[55] On 18 April 2018, JKL announced that the Federal Court of Australia had approved the confidential settlement of a case it has funded which generated revenue of approximately A$3 million and a profit after capitalised overheads of A$1.7 million.

| Consolidated Statement of Cash Flow | 1HFY17[1] A$ '000 | 1HFY18[1] A$ '000 |
|---|---|---|
| ***Cash flows from operating activities*** | | |
| Receipts from customers | 5,140 | 6,661 |
| Payments to suppliers and employees | (13,175) | (11,721) |
| Interest received | 33 | 250 |
| Interest and other finance costs paid | (252) | (2,518) |
| **Net cash inflow/(outflow) from operating activities** | **(8,254)** | **(7,328)** |
| ***Cash flow from investing activities*** | | |
| Payments for joint venture capital invested | (2,208) | - |
| Payments for plants and equipment | (149) | (25) |
| Payment for litigation case funding/intangibles | (877) | (3,186) |
| Payments of deferred consideration on previous business | (2,000) | - |
| Payments for other intangibles | (18) | - |
| **Net cash inflow /(outflow) from investing activities** | **(5,252)** | **(3,211)** |
| ***Cash flow from financing activities*** | | |
| Net proceeds from issues of shares | - | 2,411 |
| Proceeds from issue of convertible notes | 5,000 | - |
| Proceeds from borrowings - disbursement funding division | 6,260 | 7,375 |
| Proceeds from borrowings - corporate | 3,000 | - |
| Repayments of loans/borrowings | (4,451) | (4,965) |
| **Net cash flow from financing activities** | **9,809** | **4,821** |
| Net increase/(decrease) in cash and cash equivalents | (3,697) | (5,718) |
| Cash and cash equivalent at the beginning of the year | 5,568 | 7,627 |
| **Cash and cash equivalents at the end of the year** | **1,871** | **1,909** |

*Source: Company's semi-annual financial reports*
*Note: 1. The 1HFY17 and 1HFY18 accounts have been prepared following the accounting standard AASB 9.*

We note the following in relation to JKL's cash flow statements:

- In 1HFY18, JKL's Disbursement Funding Business generated cash inflows broadly in line with cash outflows[56], whereas cash flows from the Litigation Portfolio business were negative due to working capital requirements. Cash receipts from the Disbursement Funding Business are used to fund overheads and service the receivables facility associated with the division and accordingly JKL uses the Assetsecure Facility to fund its growth opportunities.

- On 1 November 2017, the Company completed the first tranche of two underwritten equity placements, issuing c.18.87 million of new shares at A$0.14 per share to raise circa A$2.6 million. The second tranche of the equity placement (12.8 million shares at A$0.14 per share) was subsequently replaced in January 2018 by a new A$3 million debt facility ("Working Capital Facility") from Lucerne.

## 4.4 ***Capital structure***

As at the date of this report, JKL's capital structure is as follows:

- 147,933,598 Ordinary shares.

- 1,500,000 Options with exercise price of A$0.25 and expiry date of 22 January 2019.

[56] Cash inflows from customer receipts and drawdowns from JKL's Assetsecure revolving facility were broadly in line with cash outflows related to payments to suppliers and employees, finance costs and repayments of borrowings.

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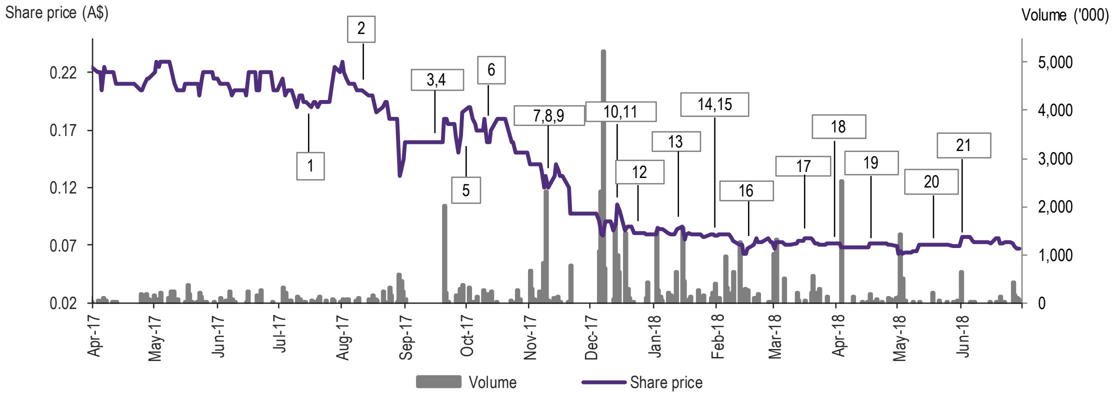
- 1,264,569 Performance rights issued to Senior Management.

Our analysis of the daily movements in JKL's share price and volumes for the period from April 2017 to the Valuation Date is set out below:

**Historical share trading prices and volume for JKL**




*Sources: S&P Global and GTCF analysis*

| Event | Date | Comment |
|---|---|---|
| 1 | Jul-17 | JKL announces a corporate restructure to focus on the Disbursement Funding Business. Core to the restructure is the transfer of the litigation portfolio into a new trust structure |
| 2 | Aug-17 | JKL released its FY17 annual report:<br>- Gross Revenues raised from c.A$6 million in FY16 to c.A$22.4 million in FY17<br>- Loss from ordinary activities of c.A$2.6 million in comparison to FY16 loss of c.A$1.3 million<br>- Net cash flow used in operating activities of c.A$(16.6) million |
| 3 | Sep-17 | JKL announces the intention to acquire 70% of NHF:<br>- Purchase price, payable on completion of the transaction, US$68 million<br>- The acquisition will be funded through a combination of a new debt facility and an equity capital raising<br>- The NHF Founders will retain a combined interest of 30% in NHF and continue to manage the business |
| 4 | Sep-17 | Update of JKL Finance funding facilities:<br>- Assetsecure Facility extended from A$20 million to A$35 million at an interest rate of 8.95% per annum expiring 30 September 2020<br>- Assetsecure new short term loan facility of A$5 million at interest rate of 13.8% per annum expiring 30 September 2020 |
| 5 | Oct-17 | The JKL litigation funding portfolio has been valued between A$13.5 million and A$17.5 million in an Independent Valuation Report prepared for the Board. |
| 6 | Oct-17 | JKL announces changes to the Board and the Management<br>- Philip Kapp resigned as Director and Executive Chairman<br>- Tim Storey appointed as Non-Executive Chairman<br>- Diane Jones assumed the role of interim CEO<br>- Anthony Murphy appointed as a Non-Executive Director<br>- Mike Hill will continue as Non-Executive Director |
| 7 | Nov-17 | JKL announced the intention to issue c.A31.4 million new fully paid ordinary shares in 2 tranches and at the issue price of A$0.14 per share via a private placement:<br>- Tranche 1 issued on 8 November 2017 comprising c.18.87 million of shares<br>- Tranche 2 comprising c.12.58 million of shares is subject to the approval of JKL shareholders expected in December 2017. |
| 8 | Nov-17 | JKL announced changes to the Board and Management:<br>- Diane Jones, previously interim CEO, now appointed as CEO and Executive Director.<br>- Anthony Hersch appointed as Chief Operating Officer<br>- Craig Beatton appointed as Chief Financial Officer<br>- Mike Hill resigned as Non-Executive Director |

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| Event | Date | Comment |
|---|---|---|
| 9 | Dec-17 | The Company announced the following:<br>- An expected loss of A$5 million for FY18<br>- NHF acquisition will no longer be pursed. JKL has been unable to secure sufficient debt and equity funding to complete the transaction.<br>- The Board has reached favourable terms with Mr. Kapp who will assume the management rights of Trust and the associated litigation cases. |
| 10 | Dec-17 | JKL announced that it had reached favourable terms with Phillip Kapp to assume management rights over the majority of the Group's funded cases which will be transferred into the Litigation Finance Trust ("Trust") owned by JKL. The transaction is still subject to the IER commissioned to assess the fairness and reasonableness of the transaction |
| 11 | Dec-17 | Notice of initial substantial holding:<br>- EGP Capital Pty Ltd reached 5.5% voting power |
| 12 | Dec-17 | JKL announced that it successfully negotiated extensions to the Group's short term loan facilities.<br>*Vendor Loan Facility*<br>- Termination date extended from 22 January 2018 to 22 January 2019, facility size decreased from A$2.4 million to A$2.0 million<br>*Lucerne Group Facility*<br>- Lucerne Group have agreed to amalgamate and extend their respective loans to a common repayment date of 1 April 2019. |
| 13 | Jan-18 | JKL announced the first conditional settlement of a case it has funded. The Company expects to recognise a revenue of A$3 million from the investment and generate a profit after capitalised overheads of approximately A$1.3 million. The Company is expected to incur in a loss of A$3.7 million for FY18. |
| 14 | Jan-18 | JKL obtained the Working Capital Facility from Lucerne at the following terms:<br>- Amount of facility A$3.0 million<br>- Duration 2 years<br>- Line Fee and interest rate 2% (paid upfront) and 7.95% respectively<br>This facility replaced the pending second tranche of equity that was to be issued as a part of the previously announced private placement in November 17 |
| 15 | Jan-18 | JKL released the result for the second FY18 quarter ended the 31 December 2017:<br>- Cash collections from customers were up 20.9% quarter on quarter<br>- 9% growth in gross book of receivables over the last 6 months up to 31 December 2017 |
| 16 | Feb-18 | JKL released the 1HFY18 accounts and investor presentation:<br>- Increase in revenue from ordinary activities of 85% to c.A$2.9 million<br>- Loss from ordinary activities increased by 45% to c.A$3.8 million<br>- The Company decided to early adopt of the accounting standards AASB 9 and AASB 15 |
| 17 | Mar-18 | The IER commissioned to evaluate the Trust Transaction assessed the transaction as not fair and not reasonable and not in the best interest of JKL Shareholders. JKL terminated the transaction. |
| 18 | April 18 | JKL has announced that The Federal Court of Australia has approved the confidential settlement of a case JKL has funded. The Company expects to recognise revenue of approximately A$3 million from this investment and generate a profit after capitalised overheads of A$1.7 million. |
| 19 | Apr-18 | JKL released the result for the third FY18 quarter ended the 31 March 2018:<br>- Cash collections from customers down by 2.1% quarter on quarter but up 85.8% current quarter over prior year quarter.<br>- Payments were in line with board expectations and reflect the cost cutting measure, which commenced in November 2017<br>- The Lucerne Group facility limit increased by A$2.0 million. JKL has extended its total undrawn facilities to approximately A$14 million.<br>- JKL has engaged with a number of interest parties in relation to its Litigation Portfolio. |
| 20 | May 18 | JKL advises that on 15 of May 2018 it received a notice citing Section 249D of the Corporations Act 2001 (Cth) ( Purported 249D Notice) requesting the Company call and arrange to hold a meeting of the members of the Company. The purpose of the Purported Section 249 D Notice is to remove Mr Tim Storey (Non-Executive Chairman), Mr Anthony Murphy (Non-Executive Director) and Ms Diane Jones (Chief Executive Officer and Managing Director) as directors of the Company and to appoint three unspecified individual in their place as independent directors of the Company. The Company is currently seeking legal advice as to the validity of, and discrepancies in, the Purported Section 249D Notice. |
| 21 | June 18 | JKL has announced the confidential settlement of 2 cases it has funded. Both settlements are subject to the approval of The Federal Court of Australia. Subjected to the final approval the Company expects to recognise gross revenue and receive cash of approximately A$6.6 million. |

The monthly share price performance of JKL since June 2017 is summarised below:

| JKL | Share Price High $ | Low $ | Close $ | Average weekly volume 000' |
|---|---|---|---|---|
| **Month ended** | | | | |
| Jun 2017 | 0.220 | 0.190 | 0.205 | NA |
| Jul 2017 | 0.225 | 0.190 | 0.220 | NA |
| Aug 2017 | 0.230 | 0.125 | 0.145 | NA |
| Sep 2017 | 0.235 | 0.145 | 0.185 | NA |
| Oct 2017 | 0.190 | 0.150 | 0.150 | NA |
| Nov 2017 | 0.150 | 0.098 | 0.098 | NA |
| Dec 2017 | 0.105 | 0.078 | 0.079 | 3,586 |
| Jan 2018 | 0.088 | 0.075 | 0.078 | 1,438 |
| Feb 2018 | 0.080 | 0.062 | 0.073 | 1,116 |
| Mar 2018 | 0.076 | 0.055 | 0.072 | 1,062 |
| Apr 2018 | 0.072 | 0.067 | 0.069 | 777 |
| May 2018 | 0.070 | 0.060 | 0.069 | 543 |
| Jun 2018 | 0.081 | 0.065 | 0.067 | 382 |
| **Week ended** | | | | |
| 23 Mar 2018 | 0.076 | 0.069 | 0.070 | 1,407 |
| 30 Mar 2018 | 0.072 | 0.072 | 0.072 | 125 |
| 6 Apr 2018 | 0.069 | 0.067 | 0.068 | 2,538 |
| 13 Apr 2018 | 0.068 | 0.068 | 0.068 | 167 |
| 20 Apr 2018 | 0.072 | 0.068 | 0.071 | 276 |
| 27 Apr 2018 | 0.071 | 0.070 | 0.070 | 194 |
| 4 May 2018 | 0.070 | 0.060 | 0.064 | 2,176 |
| 11 May 2018 | 0.070 | 0.065 | 0.070 | 24 |
| 18 May 2018 | 0.070 | 0.066 | 0.070 | 220 |
| 25 May 2018 | 0.070 | 0.070 | 0.070 | 67 |
| 1 Jun 2018 | 0.081 | 0.069 | 0.077 | 753 |
| 8 Jun 2018 | 0.077 | 0.073 | 0.073 | 30 |
| 15 Jun 2018 | 0.072 | 0.072 | 0.072 | 10 |
| 22 Jun 2018 | 0.076 | 0.071 | 0.073 | 153 |
| 29 Jun 2018 | 0.073 | 0.065 | 0.067 | 762 |
| 6 Jul 2018 | 0.068 | 0.067 | 0.067 | 178 |

*Sources: S&P Global and GTFC analysis*

We have set out below the top 10 JKL Shareholders as at 23 July 2018:

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| Top 10 shareholders of ordinary share as at 23 July 2018 | | No. of shares | Interest[1] (%) |
|---|---|---|---|
| 1 | Mr John Herbert Bannister | 15,846,390 | 10.71% |
| 2 | National Nominees Limited | 12,630,000 | 8.54% |
| 3 | Citicorp Nominees Pty Limited | 12,471,134 | 8.43% |
| 4 | Twin Investors Pty Limited | 5,984,012 | 4.05% |
| 5 | BNP Paribas Nominees Pty Limited | 4,841,041 | 3.27% |
| 6 | Wattle Laboratories Pty Limited | 4,800,000 | 3.24% |
| 7 | Twin Investors Pty Limited | 3,005,400 | 2.03% |
| 8 | Onmell Pty Ltd | 2,800,000 | 1.89% |
| 9 | Mr Alistair David Strong | 2,600,000 | 1.76% |
| 10 | Garret Smythe Ltd | 2,566,568 | 1.73% |
| **Top 10 shareholders of ordinary shares** | | **67,544,545** | **45.66%** |
| Remaining Shareholders | | 71,624,560 | 48.42% |
| **Total ordinary shares outstanding** | | **139,169,105** | |
| *Escrowed shares* | | | |
| JKL Management[2] | | 1,431,160 | 0.97% |
| Litman Holdings[3] | | 7,333,333 | 4.96% |
| **Total shares on issue** | | **147,933,598** | **100.00%** |

*Sources: OSCAR, JKL Management*

*Notes: 1. Percentage of interest computed over total shares on issue; 2. Performance rights issued to JKL Senior Management, with the escrow period expiring on 31 December 2018; 3. Shares issued as part of the consideration for the JKL's acquisition of 5 litigation cases in 2015. The shares will remain in escrow until the receipt of settlement proceeds expected on or around 14 September 2018.*

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## 5 Profile of NHF

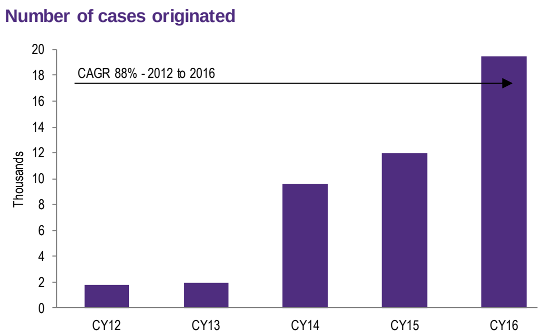
NHF is one of the leading purchasers of personal injury related medical liens in the United States. NHF was established in 1999 by David Wattel and Mark Siegel in Arizona and now operates across 19 states and has a long history of proven returns with over 60,000 claims funded.

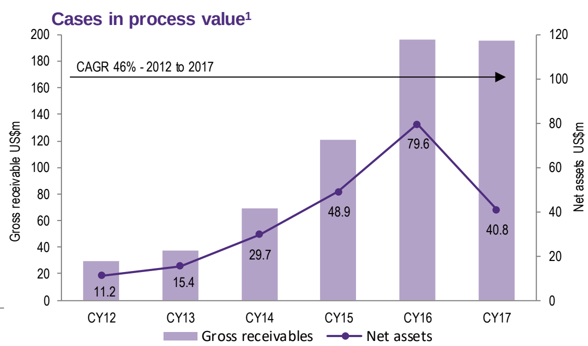
NHF purchases a medical lien of the not-at-fault party and seeks recoupment against future settlement proceeds. The majority of cases typically relate to motor vehicle accident victims, but cases also include other types of personal injury claims. NHF typically approves medical care provided to the victim for a total value of up to 40% of the maximum liability coverage. NHF pays directly to the medical provider within 30 days at an agreed reduced percentage of the face value for the procedures completed averaging between 30% to 35%. In exchange, NHF purchases the medical provider's lien rights to the full face value of the medical services. We note that the medical providers find this funding mechanism beneficial due to the speed of payment (medical providers typically cannot bill insurers until 120+ days after care, if the insurer covers the services) and because they would usually receive a lower amount from Medicare and Medicaid, if they respond.

Upon conclusion of the case, NHF collects up to the full face value of the medical procedures. Historically, over the period 2004 to 31 December 2017, NHF has collected between 53% and 62% of the face value of the invoice associated with the medical procedures acquired and it has collected 1.77x the cash deployed. NHF's medical lien contract is with the individual plaintiff and it is entitled to receive the full cost of the medical services incurred by the plaintiff despite the outcome of the case as per the terms stated in its contract.

We note that NHF's provision for uncollectible service revenue increased over the period FY15 to FY17. In FY17 NHF increased its allowance for uncollectible cases from 32% to 52% based on a review of its outstanding cases.

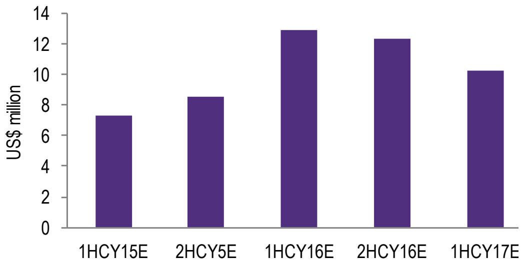
NHF's business has grown considerably over the period CY12 to CY17 with gross cases in process growing from circa US$30 million to circa US$195 million over this period (CAGR of 46%) and net receivables growing from circa US$40 million to circa US$94 million.



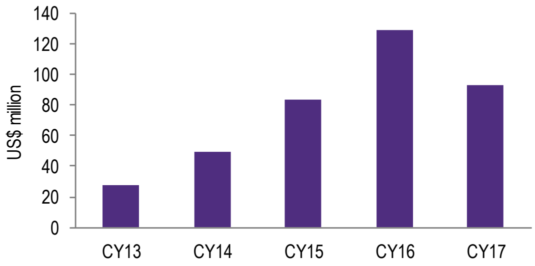




*Sources: JKL Acquisition of NHF presentation dated October 2017, and NHF Financial Statements for CY12-CY17*
*Notes: 1. Gross receivables associated with cases in progress reported in the financial statement (i.e., before allowance for doubtful debts)*
*2. Net assets computed excluding convertible notes payable from the total liabilities amount*

NHF - Cash collection




NHF - Net Receivables

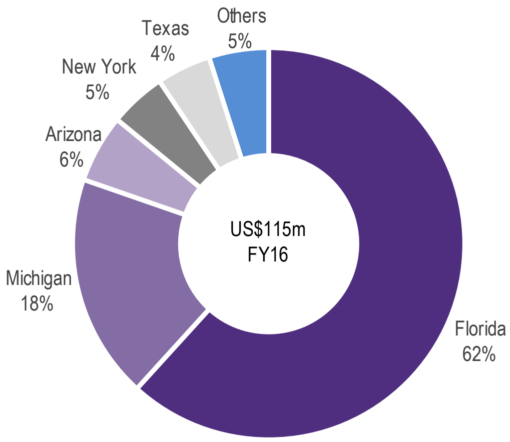



*Source: NHF Management*

Regarding the above, we note that the decline in net assets and net receivables in CY17 was driven by the increase in allowance for uncollectible cases in process from 34% to 52%. The flat lining of the cases in process and reduction of net receivables was impacted by funding constraints, which limited the ability of NHF to continue to pursue growth opportunities.

NHF has built a portfolio of cases comprised mostly of motor vehicle accident disbursements in 452 locations across 22 states (from 9 states in 2012). The following pie chart shows a breakdown of revenues by state for FY16.

NHF - FY16 Services revenues by state




*Source: NHF Management*

In relation to the above, we observe that 95% of service revenues originated in 5 states in CY16 with Florida being by far the largest contributor. Florida has favourable market conditions for medical lien purchasing operations as it only requires the injured party's signature on the lien to be valid whereas other states requires the medical liens to be perfected by statute.

Key to the success of NHF is the due diligence process and risk mitigation undertaken before taking on a new case. Before taking on a new case, NHF considers the liability, causation and severity of the injury, the total available coverage provided by the at-fault party's insurance and the victim's auto insurance. In addition, attorney fees are contingent upon successful conclusion and physicians receive on average a higher percentage of earnings in a shorter period of time by working with NHF and accordingly they are both incentivised to refer cases with a high chance of success.

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### 5.1.1 Future growth opportunities

NHF Management has indicated the following as core elements to its business's competitiveness and future growth:

- NHF's business model is based on the affiliate system (described in the paragraph below) which allows for rapid growth in new markets. NHF is able to scale its current business volume significantly by using its current infrastructure, with minimal increases to corporate overheads.

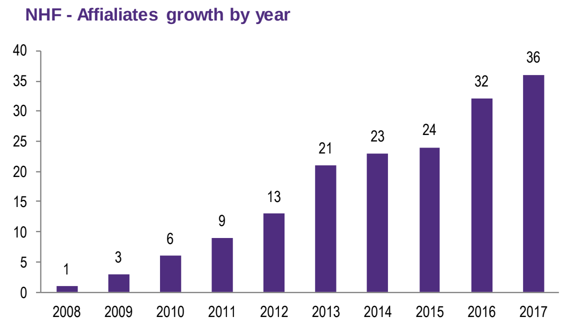
- NHF is planning to expand into the states of Colorado, Mississippi, Illinois, Idaho and Ohio over the next 12 months.

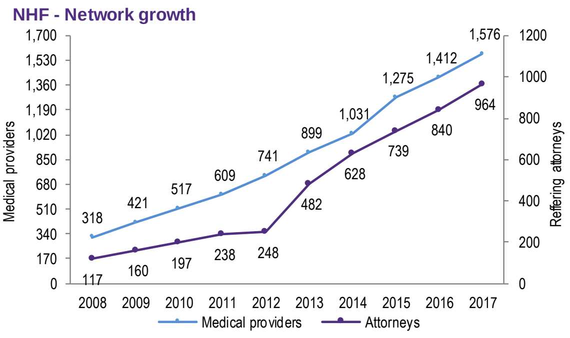
### 5.1.2 Affiliate network

NHF operates across different jurisdictions through a chain of affiliated special purpose vehicles, which it either wholly owns or controls. Affiliates are fully consolidated into NHF for financial reporting purposes.

NHF's business model is based on identifying influential and leading physicians or other third party providers ("Partner Providers") in each state who have the contacts and relationships to connect businesses to NHF. Partner Providers are given minority stakes in affiliate entities in order to align their interests with NHF's. The equity stakes offered vary but more recently have been circa 25% (although it averages around 12% across all affiliates). Profit distributions are paid to Partner Providers after payment of a 20% interest on amounts loaned by NHF and a 20% management fee based on the revenue of the affiliate (both these transactions are eliminated on consolidation). After considering these costs, the effective profit entitlement of the Partner Providers is reduced to approximately 5% to 6%.

The graph below highlights the growth in NHF's network of affiliates which has supported the growth of the NHF business:




*Sources: JKL Management and NHF website*

The majority of affiliates are based in Arizona but operate across various states. In 2017 NHF had a network of 3,000 physicians. Through this network NHF is able to provide a wide range of health care treatments to a large number of personal injury victims.

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5.1.3 NHF Debt structure

NHF currently supports its business via a US$80 million revolving facility from Atalaya. NHF has the ability to increase the total limit to US$155 million subject to agent/lender consent. As at 31 December 2017 the revolving facility was currently drawn to the amount of US$38.3 million.

## 5.2 NHF Financial information

### 5.2.1 Financial performance

The NHF financial performance over the past three year period based on US GAAP[57] is summarised below:

| Consolidated statements of comprehensive income for the period | CY15 | CY16 | CY17[1] |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| Service revenue | 73,799 | 114,561 | 38,186 |
| Provision for uncollectible service revenue | (24,934) | (45,468) | (17,212) |
| Increased provision for change in estimate | - | - | (35,152) |
| **Revenues Net** | **48,865** | **69,093** | **(14,179)** |
| Cost of Services | (22,989) | (33,326) | (12,623) |
| **Gross Profit** | **25,876** | **35,767** | **(26,801)** |
| General and administrative expenses | (3,669) | (5,260) | (5,176) |
| **EBITDA** | **22,207** | **30,507** | **(31,977)** |
| Other Income (Expense) | | | |
| Interest income | 147 | 8 | 25 |
| Depreciation and amortization expense | - | (179) | (177) |
| Interest expense | (2,037) | (3,905) | (5,988) |
| Other Income | - | - | 29 |
| **Total other income** | **(1,890)** | **(4,077)** | **(6,110)** |
| **Net income (loss)** | **20,317** | **26,430** | **(38,087)** |
| **Key operational metrics - as % of service revenue** | | | |
| Provision for uncollectible service revenue | 34% | 40% | 45% |
| Implied discount | 69% | 71% | 67% |
| Gross margin | 35% | 31% | 22% |
| EBITDA margin | 30% | 27% | 8% |

*Sources: NHF financial reports and GTCF analysis*
*Note: 1. CY17 Key operational metrics have been computed excluding the increased provision for change in estimate amount of US$35 million*

In relation to the above we note:

- Service revenues represent the gross face value of the invoices purchased which can fluctuate significantly year to year, subject to the timing and size of invoices purchased. Management have advised that the 67% reduction in service revenue in CY17 was the result of funding constraints as during the period NHF's debt facilities were fully utilised. We understand that NHF has increased its debt facility from circa US$50 million to circa US$80 million, and changed lenders, in CY18.

- The implied discount at which NHF acquires the receivables historically is around 70% which is captured in the cost of services.

- The loss of US$38 million in CY17 is mainly driven by the decrease in service revenues as a result of funding constraints experienced by the business and by the $US35 million increased provision. In

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relation to the increase in provision in CY17, NHF increased its estimated allowance to 52% from 34% following a review of the cases in process. NHF recognised that it had been underproviding its allowance for uncollectible cases in previous years and in CY17 performed a correction to reflect the ordinary course of business rather than restating previous years' accounts. See section 5.2.2 below for additional details.

- General and administrative expenses have remained substantially flat. NHF Management advise that the business model is easily scalable and these costs are dependent on the business needs of NHF.

### 5.2.2 Financial position

The NHF consolidated statements of financial position under US GAAP are disclosed below:

| Consolidated statements of financial position | CY15<br>US$'000 | CY16<br>US$'000 | CY17<br>US$'000 |
|---|---|---|---|
| ***Assets*** | | | |
| Cash and Cash equivalents | 20 | 214 | 1,463 |
| Restricted cash | 1,000 | 1,000 | 6,223 |
| *Cases in process* | *120,993* | *196,095* | *195,291* |
| *Allowance for uncollectible cases in process* | *(37,508)* | *(66,672)* | *(101,551)* |
| **Cases in process - net of uncollectible portion** | **83,485** | **129,423** | **93,740** |
| *Notes and interest receivable from related parties* | *298* | *298* | *319* |
| *Allowance for uncollectible notes and interest* | *(298)* | *(298)* | *(298)* |
| **Notes receivable - net of uncollectible portion** | **-** | **-** | **21** |
| Notes and interest receivable from related parties | 119 | 18 | 198 |
| Property plant and equipment | - | - | 20 |
| Intangible assets, net of accumulated amortization | - | 821 | 586 |
| Other assets | 10 | 90 | 167 |
| **Total assets** | **84,634** | **131,565** | **102,418** |
| ***Liabilities*** | | | |
| Account payable | 1,119 | 1,506 | 1,145 |
| Accrued interest payable | 178 | 699 | 641 |
| Accrued payroll and other liabilities | 132 | 962 | 136 |
| Notes payable | - | - | 4,500 |
| Convertible note payable | - | 12,910 | 12,910 |
| Notes payable to related parties - subordinated | 4,080 | 10,229 | 10,229 |
| Other subordinated debt | 1,650 | 2,300 | 1,700 |
| Revolving line of credit, net of deferred financing costs | 28,572 | 28,179 | 43,220 |
| Notes payable | - | 8,102 | - |
| **Total liabilities** | **35,731** | **64,887** | **74,481** |
| **Net assets** | **48,904** | **66,678** | **27,937** |
| ***Members' Equity*** | | | |
| NHF members' equity | 46,393 | 63,781 | 27,033 |
| Non controlling interest | 2,511 | 2,898 | 904 |
| **Total members' Equity** | **48,904** | **66,678** | **27,937** |

*Sources: NHF financial reports and GTCF analysis*

The gross cases in process receivables are a key metric to evaluate the ongoing performance of the company and are shown in the following table:

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| NHF - Cases in process receivable computation<br>US$'000 | CY15 | CY16 | CY17 |
|---|---|---|---|
| Cases in process[1] -gross amount | 120,993 | 196,095 | 195,291 |
| Allowance for uncollectible cases in process | (37,508) | (66,672) | (101,551) |
| *Allowance as %* | *31%* | *34%* | *52%* |
| **Cases in process - net of uncollectible portion** | **83,485** | **129,423** | **93,740** |

*Sources: NHF financial reports and GTCF analysis*
*Note: 1. The gross amount represents the face value of the medical treatment invoices which NHF buys at a discount (usually between 60% to 70%)*

The growth in receivables is a consequence of the increased business operations due to additional capital availability and network expansion. The allowance for uncollectible cases is based on historical analysis relating to the size, type and category of the cases in process. In CY17, NHF increased its estimated allowance to 52% from 34% following a review of the cases in process. NHF recognised that it had been underproviding its allowance for uncollectible cases in previous years and in CY17 performed a correction to reflect the ordinary course of business rather than restating previous years' accounts.

The table below shows NHF net debt position before and after the Proposed Transaction:

| NHF net debt<br>US$ '000 | *Note* | As at 31 Dec 17 | Pro forma adjustments | Changes at completion | Post the Proposed Transaction | Post the Proposed Transaction (A$ |
|---|---|---|---|---|---|---|
| Financing facility | *1* | 43,200 | (4,900) | | 38,300 | 51,067 |
| NHF third party notes | *2* | 4,500 | | | 4,500 | 6,000 |
| NHF Founders Notes | *3* | 10,000 | | (1,000) | 9,000 | 12,000 |
| NHF Subordinated notes | | 1,700 | | (700) | 1,000 | 1,333 |
| Presidio Convertible Notes | *4* | 12,910 | | (12,910) | - | - |
| **NHF total debt** | | **72,310** | | | **52,800** | **70,400** |
| NHF cash | *1* | 7,687 | (4,900) | | 2,787 | 3,715 |
| **Net Debt** | | **64,623** | | | **50,013** | **66,685** |

*Sources: NHF financial statements, GTCF analysis*
*Note: 1. Based on the Valuation Date Exchange Rate*

Note 1: the financing facility is reduced by US$4.9 million via the use of restricted cash.

Notes 2 and 3: payment of US$1.7 million of the NHF Founders Notes and NHF Subordinated notes to occur on completion.

Note 4: Presidio Convertible Notes which are repaid with the cash consideration of the Proposed Transaction.

### 5.2.3 Cash Flow Statement

NHF's cash flow statements for the years ended 31 December at 2015, 2016 and 2017 prepared in accordance with US GAAP are presented below:

| Consolidated statement of cash flows | CY15<br>US$'000 | CY16<br>US$'000 | CY17<br>US$'000 |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Net income (loss) | 20,317 | 26,430 | (38,087) |
| Provision for uncollectible cases in process | 18,237 | 29,164 | 34,879 |
| Depreciation and amortization expense | - | 179 | 177 |
| *(Increase) Decrease in* | - | - | - |
| Notes and interest receivable | - | - | (21) |
| Cases in process | (52,168) | (75,102) | 805 |
| Other assets | (5) | (80) | (17) |
| *Increase (decrease) in:* | - | - | - |
| Accounts payable | (312) | 387 | (361) |
| Accrued interest | 78 | 521 | (58) |
| Accrued payroll and other liabilities | (19) | 830 | (826) |
| **Net cash provided by (used for) operating activities** | **(13,871)** | **(17,670)** | **(3,511)** |
| ***Cash flows from investing activities*** | | | |
| Purchase of property and equipment | - | - | (21) |
| Change in accrued interest of related party note receivable | 35 | 101 | (181) |
| **Net cash provided by (used for) investing activities** | **35** | **101** | **(202)** |
| ***Cash flow from financing activities*** | | | |
| Payments for loan origination fees | - | (1,000) | - |
| Proceeds from issuance of notes payable | - | - | 4,500 |
| Proceeds from issuance of convertible note payables | - | 12,910 | - |
| Principal payments of notes payable to related parties - subordinated | (725) | (1,465) | - |
| Proceeds from notes payable to related parties - subordinated | 545 | 7,814 | - |
| Principal payments on other subordinated debt | (50) | (150) | (600) |
| Release of restricted cash related to line of credit payoff | - | - | 1,000 |
| Proceeds from issuance of other subordinated debt | 500 | 600 | - |
| Designation of restricted cash related to line of credit | - | - | (6,223) |
| Principal payments of revolving line of credit | (18,632) | (30,688) | (29,831) |
| Proceeds from issuance of revolving line of credit | 39,454 | 30,295 | 45,404 |
| Deferred financing costs | - | - | (532) |
| Principal payments on bank notes payable | (7,648) | (5,106) | (8,102) |
| Proceeds from issuance of bank notes payable | 582 | 13,208 | - |
| Distribution to members | (1,440) | (10,843) | (882) |
| Contribution from members | 282 | 2,187 | 228 |
| **Net cash provided by (used for) financing activities** | **12,869** | **17,762** | **4,962** |
| Net Change in cash and cash equivalent | (968) | 194 | 1,249 |
| Cash and cash equivalents - beginning of period | 988 | 20 | 214 |
| **Cash and cash equivalents - End of period** | **20** | **214** | **1,463** |

*Sources: NHF financial reports and GTCF analysis*

NHF's cash flow from operating activities is negative in the three calendar years due to the significant purchase of cases in process of circa US$52 million and US$75 million in CY15 and CY16 respectively, and the cash collection cycle of around 1.5 to 3 years.

As NHF is in a growth phase, it relies on its debt facilities to continue its operations and fund its cases in process. We understand that during the course of CY17, NHF's growth rate and performance was constrained by limited capital availability under its then existing financing facilities and the cash flows generated were re-invested in the purchase of new cases.

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# 6 Profile of the Merged Entity

## 6.1 *Introduction*

If the Proposed Transaction is completed, JKL intends to change its name to LawFinance Limited and its reporting period and currency to 31 December and US$ respectively.

If the Proposed Transaction is completed, the Merged Entity will be a materially larger and geographically diversified disbursement and medical procedure funding business with market leading positions in both the US and Australia. The majority of the revenue and loan book will be originated by NHF in the US, which is expected to be operated with a clear growth strategy reporting to JKL senior management.

## 6.2 *Management and Board composition*

As discussed in Section 1.1, following completion of the Proposed Transaction Mr David Wattel will be invited to join the Board.

We understand that there will be no changes to the senior management teams of JKL or NHF.

## 6.3 *Capital structure and shareholders*

The consideration for the acquisition of NHF includes the issue of shares and warrants to the NHF Founders and debt and equity providers. Following completion of the Proposed Transaction, the original shareholders of JKL will retain approximately 29.0% interest in the Merged Entity on an undiluted basis[58] or 21.7% interest in the Merged Entity on a fully diluted basis as summarised in the table below.

| JKL share capital after the Proposed Transaction | *Section reference* | No. of Shares | % Interest undiluted | Share issued on exercise of warrants | No. of Shares fully diluted | % of interest fully diluted |
|---|---|---|---|---|---|---|
| Existing JKL Shareholders[1,2] | | 149,198,167 | 29.0% | - | 227,323,167 | 21.7% |
| Share issued to NHF Funders | *1.1* | 215,097,403 | 41.8% | 122,863,636 | 337,961,039 | 32.3% |
| Shares issued under Rights Issue[3] | *1.4* | 56,250,000 | 10.9% | - | 56,250,000 | 5.4% |
| Shares issued under Placement[3] | *1.4* | 93,750,000 | 18.2% | - | 93,750,000 | 9.0% |
| No. of shares issued to debt providers | *1.3* | - | -% | 329,880,000 | 329,880,000 | 31.6% |
| **Total No. of Shares** | | **514,295,570** | **100%** | **452,743,636** | **1,045,164,206** | **100%** |

*Source: JKL Management*
*Notes: 1. Includes 147,933,598 ordinary shares and 1,264,569 performance rights which vested on 30 June 2018 as indicated by JKL Management but it excludes the number of shares to be issued upon conversion of the JKL Convertible Bonds; 2. Under fully diluted basis includes 78,125,000 shares from the conversion of the A$5 million convertible bonds ("JKL Convertible Bonds") assumed at A$0.064 per share; 3. Assuming a take-up of the Rights Issue of 56,250,000 new fully paid ordinary shares at A$0.08 per share to raise A$4.5 million before costs.*

## 6.4 *Future intentions for JKL*

The NHF Founders' intentions in relation to the Merged Entity are set out in section "Current Management of NHF" in the Explanatory Memorandum.

[58] Excluding the dilution from the issue of the JKL Shares upon exercise of the warrants.

## 6.5 ***Pro forma financial information***

As set out in the Explanatory Memorandum, JKL has prepared the pro forma financial information after the Proposed Transaction having regard to the reviewed and audited financial statements of JKL and NHF after having considered the following adjustments:

- The pro-forma financial information has been prepared based on the 31 December 2017 financial statements of JKL and NHF, adjusted for debt and capital financing and transaction costs associated with the Proposed Transaction.
- The pro-forma financial information has been presented in US$ as at 31 December 2017, consistent with the new reporting currency and year-end adopted by JKL following completion of the Proposed Transaction.
- NHF audited consolidated financial statements which were prepared in accordance with US GAAP for the years ended 31 December 2016 and 31 December 2017 have been adjusted to align with the accounting policies applied by JKL.
- The pro-forma financial information was prepared by translating JKL's financials into US$ based on a AUD/USD exchange rate of 0.77.
- Goodwill and intangibles includes goodwill on acquisition of NHF and the goodwill from the acquisition of the MML business. No formal purchase price allocation has been performed to identify and value intangible assets acquired.

We have set out below a summary of the pro-forma financial information.

### 6.5.1 Financial performance

| Merged Entity - Consolidated statement of comprehensive income for the period<br>US'000 | CY17<br>Pro-forma |
|---|---|
| **Revenue** | |
| **Net Income** | 12,523 |
| Non-Supplier related cost of sales | (253) |
| **Gross margin** | **12,270** |
| Other Income | 1,167 |
| **Expenses** | |
| Employee benefits expense | (3,079) |
| General, administration and other expenses | (7,353) |
| Depreciation and Amortisation | (237) |
| Business Purchase Expense | (3) |
| Finance Costs | (9,839) |
| **Loss before income tax benefit/(expense)** | **(7,073)** |
| Income tax benefit/(expense) | 1,265 |
| **Profit (Loss) after income tax benefit attributable to the owners** | (5,808) |
| Other comprehensive income for the year, net of tax | 6 |
| **Total comprehensive loss for the year attributable to the owners** | (5,802) |

*Source: JKL Management*
*Note: Based on the Deal Structure Exchange Rate*

In relation to the above, we note the following:

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- In aligning NHF's accounting policies with JKL, NHF's CY17 net income from medical lien purchasing increased to a profit of approximately US$9 million from a loss of US$14 million under US GAAP.

- Net income derived by NHF includes both the movement in fair value of the receivables as well as an amortisation of any day one margin, which must be brought to account over the expected life of the receivable.

### 6.5.2 Financial position

| Merged Entity - Consolidated statement of financial position<br>US'000 | CY17<br>Pro-forma |
|---|---|
| **Assets** | |
| ***Current assets*** | |
| Cash and cash equivalents | 13,597 |
| Restricted Cash | 1,323 |
| Trade, other receivables and prepayments | 36,750 |
| Assets classified as held for sale | 11,788 |
| **Total current assets** | **63,458** |
| ***Non-current assets*** | |
| Trade and Other Receivables | 72,781 |
| Notes and interest receivable | 219 |
| Investment held in joint operation | - |
| Property plant and equipment, net of accumulated depreciation | 165 |
| Other assets | 167 |
| Goodwill and other intangibles | 5,967 |
| Goodwill arising on acquisition of NHF | 16,420 |
| Deferred Tax | 4,922 |
| **Total non-current assets** | **100,639** |
| **Total Assets** | **164,097** |
| **Liabilities** | |
| ***Current Liabilities*** | |
| Trade and other payables | 3,119 |
| Deferred Consideration | - |
| Borrowings | 14,852 |
| Liabilities associated with assets classified as held for sale | 2,356 |
| **Total current liabilities** | **20,539** |
| ***Non-Current Liabilities*** | |
| Note payable to related parties - subordinated | 2,500 |
| Loan facilities | 17,867 |
| Other borrowings | 85,425 |
| **Total non-current liabilities** | **105,792** |
| **Total Liabilities** | **126,331** |
| **Net Assets** | **37,766** |
| **Equity** | |
| Issued capital | 50,715 |
| Reserves | 1,678 |
| Accumulated losses | (15,410) |
| Non-controlling interest | 784 |
| **Total equity** | **37,766** |

*Source: JKL Management*
*Note: Based on the Deal Structure Exchange Rate*

Regarding the pro-forma financial position of the Merged Entity as at 31 December 2017 we note the following:

- To reflect the adoption of AASB 9, a calculation of the fair value of the NHF loan receivables using actuarial methods has been undertaken and reflected in the pro-forma adjustment. The fair value adjustment results in a reduction of c.US$3.7 million to NHF's net loan receivables from US$93.7 million to $90.0 million.

- The Merged Entity pro-forma reflects the acquisition financing and transaction costs as follows:

  - The Syndicated Acquisition Facility of c.US$32.3 million and Vendor Loan of US$13.2 million to finance the cash payment to Presidio and working capital needs[59].

  - The raising of US$9.2 million through the Placement and Rights Issue, assuming US$3.5m is raised under the Rights Issue[60].

  - Transaction costs of c. US$2.7 million[61].

Refer to section 9.1.2 for a detailed overview of the Merged Entity net debt.

[59] Based on the Deal Structure Exchange Rate
[60] Based on the Deal Structure Exchange Rate
[61] Based on the Deal Structure Exchange Rate

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### 6.5.3 Cash Flow Statement

| Merged Entity - Consolidated statement cash flows<br>US'000 | CY17<br>Pro-forma |
|---|---|
| ***Cash flows from operating activities*** | |
| Loss after income tax benefit for the year | **(40,975)** |
| Adjustments for: | |
| Pro-forma adjustment | 1,149 |
| Depreciation and amortisation | 250 |
| Share-based payments and interest | 380 |
| Litigation contracts in progress - written down | 35,666 |
| Commissions payable and employee leave provision | 218 |
| Change in operating assets and liabilities: | |
| Decrease/(increase) in trade and other receivables | (9,354) |
| Increase in deferred tax assets | 105 |
| Increase in assets classified as held for sale | (1,803) |
| Decrease/(increase) in prepayments | 20 |
| Increase/(decrease) in trade and other payables and provsions | (66) |
| **Net cash used in operating activities** | **(14,411)** |
| ***Cash flows from investing activities*** | |
| Payments for new joint venture capital invested | 673 |
| Payment for other intangibles and property, plant and equipment | (3,606) |
| Payment for acquisition of Macquarie Medico Legal | (1,692) |
| Payments for litigation funding and employee costs | (1,776) |
| Payments of deferred consideration on previous business | 1,538 |
| Interest on related party notes | (181) |
| **Net cash outflow from investing activities** | **(5,043)** |
| ***Cash flows from financing activities*** | |
| Proceeds from issue of shares, net of share issue transaction costs | 1,854 |
| Proceeds from borrowings – disbursement funding division | 14,441 |
| Proceeds from borrowings – corporate | 6,922 |
| Proceeds from borrowings | 49,372 |
| Repayment of borrowings | (44,831) |
| Net movement in restricted cash | (5,223) |
| Net movement on distributions | (654) |
| **Net cash inflow from financing activities** | **21,881** |
| **Net increase/(decrease) in cash and cash equivalents** | **2,427** |

*Source: JKL Management*
*Note: Based on the Deal Structure Exchange Rate*

In relation to the above we note:

- The pro-forma adjustment of US$1.1 million[62] relates to certain expenses which have been incurred but considered to be non-recurring costs as they relate to due diligence, consulting and legal fees associated with the acquisition of NHF and related capital raisings.

[62] Based on the Deal Structure Exchange Rate

# 7 Valuation methodologies

## 7.1 Introduction

As part of assessing whether or not the Proposed Transaction is fair to the Non-Associated Shareholders, Grant Thornton Corporate Finance has compared the Fair market value of JKL Shares before the Proposed Transaction on a control basis to the fair market value of the Merged Entity after approval of the Proposed Transaction on a minority basis.

In each case, Grant Thornton Corporate Finance has assessed value using the concept of fair market value. Fair market value is commonly defined as:

*"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."*

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

We note, RG111 requires the fairness assessment to be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is script or cash and without consideration of the percentage holding of the offer or its associates in the target company.

## 7.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, approval of an issue of shares using item 7 of s611 of the Corporations Act, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow method and the estimated realisable value of any surplus assets ("DCF Method").
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets ("FME Method").
- Amount available for distribution to security holders on an orderly realisation of assets ("NAV Method").
- Quoted price for listed securities, when there is a liquid and active market ("Quoted Security Price Method").
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

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RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

## 7.3 Selected valuation methods

In our assessment of the fair market value of JKL Shares before the Proposed Transaction (on a control basis) and the fair market value of the Merged Entity Shares after the Proposed Transaction (on a minority basis), Grant Thornton Corporate Finance has selected the market value of net assets as the primary valuation method. The market value of net assets is based on the sum of the parts ("SOP") of JKL and of the Merged Entity's receivables associated with the Disbursement Funding and Medical Lien Purchasing businesses, the market value of the Litigation Portfolio and other assets and other liabilities as reported in the reviewed balance sheet as at 31 December 2017.

### 7.3.1 Valuation assessment of JKL Shares before the Proposed Transaction

We have analysed JKL's business model and had regards of the strategy JKL Management is implementing. We have identified two different business segments in JKL:

- *JKL core business* –the disbursement and short term funding business, and insurance brooking operations. In our valuation assessment of the JKL core business, we have adopted a market-based approach having regard to the enterprise value as a multiple of the carrying value of receivables ("Receivables Multiple"). We believe this methodology to be appropriate due to the following:
  - The Receivables Multiple is one of the most commonly used methodologies for the valuation of companies with a book of loans or debt ledgers purchased receivables.
  - There are a number of comparable listed peers and comparable transactions which can be adopted for the calculation of the Receivable Multiples.
  - The long-term forecasts for JKL provided by JKL Management include a high level of growth and are therefore subject to a high level of uncertainty given the stage of operations of the business.
- *Litigation Portfolio* –the Litigation Funding Business, which is in run off mode with JKL expecting to exit the business by late 2019/early 2020. To assess the value of this business we have adopted the DCF Method.

### 7.3.2 Valuation assessment of the Merged Entity Shares after the Proposed Transaction

The Merged Entity equity value is based on the sum of the parts of JKL Core business combined with NHF medical lien purchasing business (together "Merged Entity core business") and the value of the Litigation Portfolio. To assess the value of the Merged Entity core business, we have adopted the Receivables Multiple approach discussed above.

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#### 7.3.3 Cross-check

Prior to reaching our valuation conclusions, we have considered the reasonableness of our valuation of JKL's Shares before the Proposed Transaction having regard to a high level DCF Method and the trading prices of JKL.

For our valuation assessment of the Merged Entity Shares after the Proposed Transaction, we have considered the reasonableness of our valuation having regard to a high level DCF Method.

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# 8 Valuation assessment of JKL before the Proposed Transaction

As discussed in Section 7, we have selected the SOP approach to assess the fair market value of JKL before the Proposed Transaction. Specifically, we have assessed the value of the core business based on the Receivable Multiple and we have considered the market value of the Litigation Business based on the DCF approach.

## 8.1 Receivable Multiple Valuation

Set out below is our valuation assessment of JKL before the Proposed Transaction on a control basis.

| Valuation Summary of JKL before the Proposed Transaction<br>Receivable multiple | Section<br>Reference | Low<br>A$'000 | High<br>A$'000 |
|---|---|---|---|
| JKL - Receivable Book Value as at 31 December 2017 | 8.1.1.1 | 25,245 | 25,245 |
| Assessed receivable multiple (control basis) | 8.1.1.2 | 1.4x | 1.5x |
| EV of JustKapital - Disbursement funding business | | 35,343 | 37,868 |
| EV of the Litigation Business | 8.1.2 | 16,346 | 20,115 |
| **Total EV of JustKapital** | | **51,689** | **57,982** |
| Less: Net debt - Disbursement funding business | 8.1.3 | (22,738) | (22,738) |
| Less: Net debt - Litigation Business | 8.1.3 | (23,400) | (23,400) |
| Add: Fair market value of tax losses | 8.1.4 | 6,341 | 6,394 |
| Less: Fair market value of JKL Options | 8.1.5 | (1) | (1) |
| **Equity Value of JKL - (on a control basis)** | | **11,891** | **18,237** |
| Number of outstanding shares | 8.1.6 | 149,198 | 149,198 |
| **Equity value per share (control basis) (A$ cents per share)** | | **7.97** | **12.22** |

*Source: GTCF analysis*

### 8.1.1 Receivable funding business

#### 8.1.1.1 Receivable book value as at 31 December 2017

In our valuation assessment, we have relied on the book value of the receivable book as at 31 December 2017, which has been reviewed by the auditors and prepared in accordance with AASB9.

We have set out in the graph below the trend in the gross receivables since January 2016 when JKL bought the MML business for A$17.9 million[63] with gross receivables[64] of A$15m[65].

[63] In the ASX announcement dated 22 January 2016, JKL announced that it had completed the acquisition of MML for A$19.3 million. Subsequent to this, JKL advised that following negotiations with the vendor, the purchase price reduced to $17.9 million.
[64] The gross amount is not impacted by changes in accounting standards hence it is a reliable representation of performance of the disbursement & STL funding division.
[65] In the ASX announcement dated 22 January 2016, JKL announced that it acquired MML's debtor book of approximately A$19 million. Subsequent to this, JKL wrote off c. A$3.8 million of the MML debtor book.

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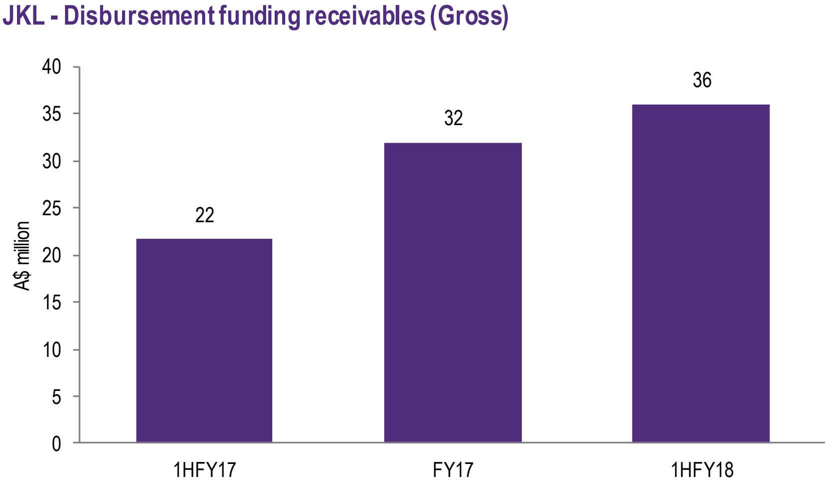


*Sources: JKL annual and semi-annual financial reports and GTCF Analysis*

We note that in order to assess the carrying value at each reporting date, JKL deducts from the gross loan value the fair value adjustment, provisions and the Unrecognised Day 1 Margin. The latter is the future profit from existing sales which will be recognised in the profit and loss in future periods.

We have set out in the table below a reconciliation between the gross receivable value and the carrying value of the core business receivables.

| JKL Core Business - Receivables reconciliation | | | |
|---|---|---|---|
| A$'000 | 1HF17 | FY17 | 1HFY18 |
| Loan receivables - Disbursement Funding (Gross) | 21,725 | 31,999 | 36,057 |
| Fair Value Adjustment | (2,947) | (3,628) | (3,788) |
| Provision for doubtful debts | (2,430) | (3,508) | (3,915) |
| **Loan receivables - Disbursement Funding (Fair Value)** | **16,348** | **24,863** | **28,354** |
| Day 1 margin to be recognised | (3,061) | (4,396) | (4,482) |
| **Loan receivables - Disbursement funding (Carrying Value)** | **13,287** | **20,467** | **23,872** |
| Short term loan receivables | 793 | 2,336 | 1,373 |
| **Total JKL Core Business Receivables** | **14,080** | **22,803** | **25,245** |

*Sources: JKL annual and semi-annual financial reports and JKL investor presentation dated 28 February 2018*

JKL has provided guidance to the market that it expects the gross receivable to grow to A$40 million in FY18 and A$50 million in FY19. The key drivers of the historical and forecast growth are:

- A new management team was installed in the first half of 2016 which brought strong expertise and in-depth relationships in the sector coupled with an updated IT platform and a focussed marketing campaign on a national basis.

- JKL has recently launched a new short-term lending (STL) product tailored for law firm clients with an exclusive disbursement funding arrangement with JKL. The pilot of the product with five law firms was encouraging.

- JKL is currently predominantly a NSW-based business and is investing significant marketing and time resources to grow the business interstate. JKL expects sales growth from interstate law firms.

We note that based on the YTD financial performance, JKL is performing in line with the FY18 gross receivable value provided to the market.

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8.1.1.2 Assessment of EV/Receivable Multiple

For the purpose of assessing an appropriate multiples range to value JKL, we have had regard to:

- The trading multiples of listed comparable companies.
- The multiples implied by recent transactions involving comparable companies.

Trading multiples

When selecting comparable companies for JKL, we note the following:

- We have predominantly focused on peers with operations similar to JKL's Disbursement Funding Business. We note that JKL's Litigation Funding Business is in run-off, with JKL expected to complete the exit of this business by late 2019 or early 2020 following the conclusion of the remaining seven cases. Accordingly, we have not considered companies operating in the litigation funding sector.
- For our valuation of JKL before the Proposed Transaction, we note that the disbursement funding industry in Australia is a niche industry with a limited number of players. Among these players, JKL is the only publicly listed company. Despite this, JKL's Disbursement Funding Business has a number of key similarities to the operations of factoring[66] and short-term lending companies as they both relate to the collection of unsecured receivables, such as medium/short-term loans, with a similar tenure to JKL's disbursements. Accordingly, we have selected a number of Australian factoring and short-term lending peers.

Summarised below are the trading multiples of the selected listed companies.

| Trading Receivable Multiples of listed peers | | Market Cap[1] | EV | Receivables[3] | EV/Receivable Multiple | | |
|---|---|---|---|---|---|---|---|
| Company | Country | $ million | $million | 1HFY18 | FY16 | FY17 | 1HFY18 |
| Credit Corp Group Limited | Australia | 848 | 1,068 | 501 | 2.9x | 2.3x | 2.1x |
| Money3 Corporation Limited | Australia | 345 | 405 | 236 | 2.5x | 1.9x | 1.7x |
| Pioneer Credit Limited[2] | Australia | 188 | 285 | 198 | 2.6x | 1.7x | 1.4x |
| Collection House Limited | Australia | 196 | 331 | 300 | 1.2x | 1.2x | 1.1x |
| **Average** | | | | | **2.3x** | **1.8x** | **1.6x** |
| **Median** | | | | | **2.5x** | **1.8x** | **1.6x** |

*Sources: S&P Global and GTCF Analysis*
*Notes: 1. Market capitalisation as at 10 July 2018, Net Debt as at 31 December 2017; 2. Pioneer Credit Limited has not early adopted the standard AASB 9 and records the receivable under AASB139 at fair value through profit and loss; 3. Carrying value of receivables*

In relation to the above multiples, we note the following:

- The EV/Receivable multiples presented above reflect the value of underlying companies on a minority basis and do not include a premium for control.
- In calculating the EV/Receivable multiples we have considered the carrying value of the receivables as opposed to the face value. We note the carrying value is a better indicator of value than the face value as the carrying value represents fair value as it has been marked-to-market for likelihood of recoverability, time-value of money and Unrecognised Day 1 Margin.

66 Factoring is a debtor financing solution in which a business sells its account receivables to a third party at a discount.

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In order to provide greater insights into the selected comparable companies, we have also analysed below the return on assets ("ROA"), return on equity ("ROE") and gross receivables growth rates. However, we note that in FY17, NHF had negative income due to funding constraints and accordingly the ROA and ROE for NHF is not meaningful. For JKL, the Disbursement Funding Business generated losses in FY16 as it had only been recently acquired while the net assets were negative in 1HFY18 as a result of the early adoption of AASB9 which makes the ROE calculation for this period not meaningful.

| KPIs | | Mkt. Cap.[1] | ROA[2] | | | ROE[3] | | | Gross receivables | |
|---|---|---|---|---|---|---|---|---|---|---|
| Company | Country | A$m | FY16 | FY17 | 1HFY18[4] | FY16 | FY17 | 1HFY18[4] | 1HFY18 | CAGR[5] |
| NHF[6] | USA | na | 24% | nmf | nmf | 46% | nmf | nmf | 195 | 27% |
| JKL - Disbursement Funding business[7] | Australia | 11 | nmf | 13% | 2% | nmf | 43% | nmf | 36 | 55% |
| Credit Corp Group Limited[8] | Australia | 848 | 14% | 12% | 11% | 23% | 24% | 23% | 1,300 | 9% |
| Money3 Corporation Limited | Australia | 345 | 10% | 12% | 11% | 14% | 18% | 17% | 293 | 27% |
| Pioneer Credit Limited[9] | Australia | 188 | 9% | 7% | 8% | 16% | 14% | 17% | na | na |
| Collection House Limited[8] | Australia | 196 | 6% | 5% | 5% | 11% | 9% | 9% | 320 | (9%) |
| **Average (excluding NHF and JKL)** | | | **10%** | **9%** | **9%** | **16%** | **16%** | **17%** | **638** | **9%** |
| **Median (excluding NHF and JKL)** | | | **9%** | **10%** | **10%** | **15%** | **16%** | **17%** | **320** | **9%** |

*Sources: Companies' financial reports and GTCF analysis*
*Notes: 1. Market capitalisation as at 10 July 2018; 2. ROA calculated as reported net Income divided by the average of the opening and closing total assets for the period; 3. ROE is computed as reported net income divided by the average of the opening and closing net assets for the period; 4. 1HFY18 net income has been annualised to calculate annualised ROE and ROA; 5. CAGR calculated over the period 1HFY16 to 1HFY18; 6. NHF financials are reported under U.S. GAAP and are based on the calendar year; 7. JKL ROA and ROE calculated based on the disbursement funding segment profit before tax; 8. Credit Corp Group Limited and Collection House Limited face value of receivables with arranged schedule of payments; 9. Pioneer Credit Limited reports under AASB139 and has not adopted AASB9 as at the date of this report.*

In the table below, we have also considered the net debt level and related gearing of JKL and the Merged Entity compared with the listed peers.

| Net debt as % of receivables at carrying value | | | | |
|---|---|---|---|---|
| A$m | Market cap[1] | Receivables[2] | Net Debt | Net debt % of receivable |
| Merged Entity[3] | na | 142 | 132 | 93% |
| JKL - Disbursement Funding business[4] | 11 | 25 | 23 | 90% |
| Credit Corp Group Limited | 848 | 501 | 220 | 44% |
| Money3 Corporation Limited | 345 | 236 | 60 | 25% |
| Pioneer Credit Limited | 188 | 198 | 96 | 49% |
| Collection House Limited | 196 | 300 | 135 | 45% |

*Sources: Financial reports of Companies, S&P Global, GTCF analysis*
*Notes: 1. Market cap as at 10 July 2018. 2. Receivables at carrying value as at 31 December 2017; 3. Merged Entity Receivables and Net Debt computed based on: a controlling interest of 97%; the Valuation Date Exchange Rate; and excluding the Litigation Portfolio associated borrowings – see sections 9.1.1 and 9.1.2 respectively; 4. JKL Net Debt excluding the Litigation Portfolio associated borrowings – see section 8.1.3.*

Below we provide a brief overview of each of the comparable companies.

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*Credit Corp Group Limited*

Credit Corp Group Limited ("Credit Corp") was established circa 25 years ago has been listed on the ASX since 2000 and is Australia's largest debt buyer and debt collector. The company has two key business segments: its core debt purchasing business and its lending business.

The company's debt purchasing business involves the acquisition of unsecured bad debts from banks, finance providers and utilities providers. The company then agrees repayment plans with the underlying customers who have defaulted on their obligations. In FY2017, the company generated approximately 74% of revenues from its debt purchasing segment. In FY2015, the company expanded its debt buying operations to the United States and they accounted for circa a quarter of the total debt buying in FY2017.

Credit Corp generated the remaining 26% of revenues in FY2017 from its lending business, which involves providing unsecured loans to consumers with an impaired credit record. Its key lending products are MoneyStart and Wallet Wizard. These two products provide individuals with unsecured loans of between A$100 to A$5,000 and for a period of up to 3 years.

We note that Credit Corp's 1HFY18 receivable multiple at 2.1x is higher than the average and median of the peers at 1.6x. In our opinion, this is likely driven by the following factors:

- Credit Corp is a significantly larger business than the other peers.
- Credit Corp has sustained for a period of time higher returns than the other peers with ROE maintained between. 23% to 24%[67] per annum over the last three years.
- Credit Corp's business model is more diversified in both geography and operations than its peers. Its business operates in Australia, New Zealand and the United States and in both debt ledger purchasing and short term lending.
- Credit Corp has significant growth opportunities expected to be derived from the United States where it is a large debt purchaser (circa A$60 million per annum) which however it is still to translate in a significant earning contributions. This is due to the current sub-scale nature of the business compared with its headcount, however the earning contribution of the US business is expected to grow exponentially going forward if market conditions remain favourable.

*Money3 Corporation Limited*

Money3 Corporation Limited ("Money3") is an alternative lender providers focused on secured automotive loans and unsecured personal loans. The company provides secured auto loans of up to A$35,000 for a period of up to 60 months and unsecured personal cash loans of up to A$12,000 typically up to 36 months. Money3 goes to market via brokers, its branch network of 50+ locations across Australia, and online. At 1HFY18, the carrying value of its receivables was c. $A236 million and secured auto loans represent circa 80% of the total.

Since FY2016, the company has generated an average ROE and ROA of c. 14%-18% and c. 10%-12% respectively and has grown the face value of its receivables at a CAGR of c. 27%. The company's 1HFY18

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[67] When 1HFY18 is annualised

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EV/Receivable multiple of 1.7x is in line with the average of the comparable companies and it reflects the strong growth expectations of the business.

*Pioneer Credit Limited*

Pioneer Credit Limited ("Pioneer") primarily acquires purchased debt portfolios ("PDP") predominantly from the big 4 Australian banks and regional banks. Its PDPs consist mostly of credit card and personal loan debt consisting of Tier 1[68] customer portfolios. In 2018, the company introduced on-balance sheet personal loans and is targeting A$30 million in personal loans by 31 December 2018. Pioneer has grown the fair value of its receivables at a CAGR of c. 43% over the period 1HFY16 to 1HFY18. Since FY2016 the company has generated an average ROE and ROA of c. 14%-17%% and c. 7%-9%.

We note that Pioneer has not early adopted the accounting standard AASB9. Therefore, the financial assets accounts associated with the debt purchasing operations are recognised at fair value under the accounting standard AASB 139. This fact could limit the comparability between the receivable multiple of Pioneer versus the other listed peers, which record their financial assets under AASB9.

*Collection House Limited*

Collection House Limited ("CHL") has two reporting segments being the purchased debt ledgers ("PDLs") and Collection Services. Its PDL segment involves the acquisition of debt ledgers from the 4 major banks as well as other money lenders and accounted for approximately 48% of revenues in 1HFY2018. The company's debt purchases predominantly relate to the banking and finance sector including personal loans, motor finance, fixed loans and credit cards. However, it also acquires utilities ledgers.

Its Collection Services segment accounted for c. 52% of 1HFY2018 revenues. This segment provides other debt providers with services related to the management of receivables. For example, it provides call overflow services to other debt providers during peak periods related to seasonality, natural disasters and other overflow periods.

We note that the company's EV/Receivable multiple at 1.2x is lower than the average of the peers of 1.6x. In our opinion this is likely driven by the following factors:

- The company's performance was negatively impacted by lower PDL purchases during FY2015 and FY2016. This was reflected in the 1HFY18 drop in revenue of 4% compared to 1HFY17.
- CLH has generated a ROA and ROE lower than the other peers. Its average ROE over the FY16 to 1HFY18 period was between 9%-11% compared to the average of the peers of c. 16%.
- A large component of the company's revenue is derived from the provision of services to other debt providers which is expected to attract a lower multiple.

<u>Transaction multiples</u>

We have further considered multiples implied by historical transactions involving companies comparable to JKL. The table below summarises our comparable transaction analysis.

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[68] Customers not regarded as credit impaired when originated

| Transaction multiples | | | | | EV/Net Tangible | EV/Receivable |
|---|---|---|---|---|---|---|
| Date | Target | Bidder | Stake | EV (A$m) | Assets | multiple |
| Feb-18 | IstCash Pty Ltd | CML Group Limited | 100% | 39 | na | 1.1x |
| Jul-17 | Pepper Group Limited | KKR Credit Advisors (US) LLC | 100% | 794 | 2.0x | 0.5x |
| Jul-16 | Resimac Limited | Homeloans Limited | 100% | 131 | na | na |
| Nov-15 | Macquarie Medico Legal & Radiology [1] | JustKapital Financing Pty Ltd | 100% | 18 | 1.3x | 1.3x |
| Oct-15 | Fisher & Paykel Finance Limited | FlexiGroup Limited | 100% | 774 | 8.9x | 1.3x |
| **Median** | | | | | **2.0x** | **1.2x** |
| **Average** | | | | | **4.1x** | **1.1x** |

*Sources: Mergermarket, S&P Global, GTCF analysis*
*Note: 1. Macquarie Medico Legal & Radiology EV/Receivable multiple calculated based on a net receivables figure of c.A$13.5 million (A$17.3 million net receivables acquired less write offs of c. A$3.8 million) and an EV of A$17.9 million.*

Of the transactions included in the table, we note that Pepper Group Limited and Resimac Limited were primarily mortgage lenders and therefore are not relevant for the purposes of our valuation. We describe in more detail the other transactions below.

*Acquisition of ISTCash Pty ltd*

On 22 February 2018, Thorn Group Limited announced that it had entered into an agreement to sell its trade and debtor finance division (IstCash Pty Ltd with A$35 million in receivables) to CML Group Limited for A$39 million.

*Fisher & Paykel Finance Limited*

In October 2015, FlexiGroup announced that it had acquired Fisher & Paykel Finance Limited ("FPF"), a New-Zealand based non-bank credit card lender and insurance provider with approximately 430,000 active cardholders and net receivables of c. A$602 million for c. A$275 million plus net debt of c. $A499 million.

*Macquarie Medico Legal & Radiology*

On 22 January 2016, JKL completed the acquisition of the litigation disbursements funding business MML for A$17.9 million[69] with a debtor book of A$15.0 million[70] .

<u>EV/Receivable multiples - Conclusion</u>

Based on the analysis of listed comparable companies and comparable transactions, Grant Thornton Corporate Finance has assessed an EV/Receivables multiple for the valuation of JKL to be 1.4x to 1.5x on a control basis. In our selection of EV/Receivables multiple based on the trading companies, we have mainly considered the following:

- The historical CAGR of the JKL disbursement funding gross receivables of 55% computed from the acquisition of MML in January 2016 to 1HFY18, which is higher than the median and average of 9% of the trading companies.

[69] In the ASX announcement dated 22 January 2016, JKL announced that it had completed the acquisition of MML for A$19.3 million. Subsequent to this, JKL advised that following negotiations with the vendor, the purchase price reduced to $17.9 million.
[70] In the ASX announcement dated 22 January 2016, JKL announced that it acquired MML's debtor book of approximately A$19 million. Subsequent to this, JKL wrote off c. A$3.8 million of the MML debtor book.

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- Notwithstanding that JKL is significantly smaller than the selected listed peers, it operates in a niche market which is less competitive and JKL is one of the dominant players.

- The selected multiples range between 1.4x and 1.5x on a control basis is still at a discount to the median Receivable Multiple of listed peers of 1.6x on a minority basis which, in our opinion, reflects the smaller scale of operations, the more limited future growth opportunities in the niche sector where the Company operates and the higher gearing level of JKL.

8.1.2 Litigation Portfolio

We have assessed the fair market value of the Litigation Portfolio based on the net present value of the future cash flows prepared by Management of the Company. All cases are expected to be completed by 2020, and accordingly the future projections are relatively short and not particularly sensitive to changes in the discount rate.

We have set out below the key assumptions adopted in the valuation assessment of the Litigation Portfolio:

| Litigation Portfolio Expected Returns A$000 | Section Reference | Estimated Res. Sum | Investment up to 28/02/18 | Expected return to JKL |
|---|---|---|---|---|
| Litigation Portfolio | *4.2.3* | Confidential | 13,066 | 46,490 |

*Source: JKL Management*

We note the following key assumptions in relation to the table above:

- *Estimated resolution sum* – This represent JKL's best estimates of the likely amount to be received by the claimants and their funders upon successful conclusions of a case (settlement before or during trial or court awarded damages).

  In estimating the expected resolution amount, Management and the Board have had regard to the following:

  - Management's experience and knowledge of the case and discussions with case lawyers and counsels.

  - Independent review of the case portfolio prepared by one of the leading class action barristers in Australia. Whilst this independent advice does not opine on the reasonableness of the estimated resolutions amounts, it does not seem to contradict the good prospects of success identified by Management.

- *Investments* – If the case is successful, JKL's cost incurred to fund the case are reimbursed.

- *Expected return* – This is calculated based on the legal agreement in place between JKL, the claimants and the case lawyers. Litigation funders usually receive between 30% and 40% of the resolution sum and this amount is shared with the co-funders (if any). JKL's co-funder partner is Longford. As discussed above, Fortress has also agreed to fund the remaining expenses capped to a certain amount for the Fortress Cases and accordingly, the expected return for JKL will be reduced for the return required by Fortress. JKL Management have advised us that they have received Federal

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Court approval for the settlement of two cases[71] not funded by Fortress for A$6.6 million[72], which was in line with Management's expectations. Management further advised that on 29 July it had conditionally settled an additional case, subject to Federal Court approval, with an associated revenue to JKL of A$2.7 million, bringing the total number of settled and conditionally settled cases to four. We note that we have applied a probability of success of 85% for the 7 ongoing cases, based on the average success rate for IMF Bentham (90%) and Litigation Capital Management (80%) as at 31 December 2017. The expected returns outlined above are on a pre-tax basis. Given that Management has provided point estimate of the expected return, in order to assess the fair market value of the Litigation Portfolio, we have applied a +/- 10% to Management's expected returns for the seven ongoing cases to generate the low and high end of our valuation range.

In order to test the reasonableness of the assumptions adopted by Management, we have set out below a benchmark of the KPIs with the two litigation funders listed on the ASX. Based on the below benchmark, the assumptions adopted by Management seem reasonable.

| Litigation funding business - KPIs benchmark | | | |
|---|---|---|---|
| Company | IRR | ROIC[3] | Historical % success |
| JKL | 59% | 1.3x | 100%[4] |
| IMF[1] | 62% | 1.5x | 90% |
| LCM[2] | 82% | 2.5x | 80% |

*Source: Companies' annual financial reports*
*Notes: 1. Based on 166 cases in Australia and rest of the world; 2. Based on 50 cases 3. Calculated as gross income less all reimbursed costs, divided by total expenditure including cases lost (excluding overheads); 4. Based on 4 settled and conditionally settled cases.*

We have set out below other assumptions adopted in our valuation assessment.

- *Timing to case completion* – Management expects all the cases to be completed by either a settlement or a judgement by mid-2020. Whilst this assumption is subjective and difficult to predict, we note that by then, several cases will have an investment period longer than average investment periods experienced by other participants in the Australian market.

- *Funding* – As discussed in section 4.2.3, JKL currently has 10 litigation cases open. As announced on the ASX on 17 July 2018, JKL has entered into a funding arrangement with Fortress in relation to five of those cases ("Five Fortress Cases"). Based on the terms of the agreement, Fortress has made available A$7 million facility with a maturity date of three years to pay for the costs associated with the Five Fortress Cases. The Fortress Facility is non-recourse to JKL and it is only secured against JKL's rights over the proceeds from the Five Fortress Cases. Whilst the Fortress Facility does not bear any interest, Fortress is entitled to a minimum return.

  In relation to the remaining cases in the Litigation Portfolio, given the existing in-house expertise and the projected returns to JKL, the Board has resolved to retain them. The funding for these cases is expected to be provided by working capital.

- *Discount rate* – In the calculation of the net present value of the expected returns, we have applied a WACC between 14% and 15% (refer to Appendix B for details). We note that the valuation

[71] We further note the company announced the settlement of a case on 2 January 2018 for a revenue of A$3 million to JKL, which was in line with Management's projections.
[72] This relates to the two conditionally settled cases announced by JKL on the ASX on 1 June 2016.

assessment of the Litigation Portfolio is not particularly sensitive to changes in the discount rate given the short timeframe.

Based on the above assumption, we have assessed the fair market value of the Litigation Portfolio between A$16.3 million and A$20.1 million.

### 8.1.3 Net debt

We have set out in the table below a summary of the net debt of JKL as at 31 December 2017.

| JustKapital net debt at 31 December 2017 | Note | A$'000 |
|---|---|---|
| *Disbursement Funding Business* | | |
| Assetsecure Facility | *Note 1* | 23,194 |
| JustKapital surplus cash (pro-forma) | *Note 2* | (456) |
| **Net debt of the Disbursement Funding Business** | | **22,738** |
| *Litigation Business* | | |
| Vendor Loan | *Note 3* | 2,000 |
| JKL Convertible Bonds | *Note 4* | 5,000 |
| Lucerne Loans | *Note 5* | 13,400 |
| Lucerne Working Capital Loan | *Note 6* | 3,000 |
| **Net debt of the Litigation Funding Business** | | **23,400** |

*Source: JKL Management*

*Note 1* – the Assetsecure Facility was drawn down to A$23.2 million out of total available facility of A$35 million as at 31 December 2017.

*Note 2* – surplus cash as at 31 December 2017 which has been pro-forma adjusted for the non-contingent transaction expenses incurred after 31 December 2017.

*Note 3* – vendor loan relates to the acquisition of MML in January 2016 and it is repayable on 22 January 2019. Management has advised that although the A$2 million vendor loan is related to the Disbursement Funding Business they intend to repay this loan using the proceeds from the Litigation Funding Business.

*Note 4* – The JKL Convertible Bonds refer to the unsecured redeemable convertible bonds issued on 15 July 2016 to fund the acquisition of a portfolio of litigation funding cases and matures on 15 January 2019. The JKL Convertible Bonds convert at the lower of A$0.30 per share or 80% of any capital raising undertaken after the issue of the JKL Convertible Bonds. Therefore the JKL Convertible Bonds can currently convert as a result of the capital raising undertaken in November 2017 at A$0.112 per share. In our valuation assessment of JKL before the Proposed Transaction, considering the proximity to the maturity date and the fact that the JKL Convertible Bonds are significantly out of the money[73], we have only had regard to the face value of the debt in our valuation assessment assuming that the JKL Convertible Bonds will be redeemed at maturity. We note that Management has indicated that in the absence of the Proposed Transaction, JKL does not intend to raise any capital.

*Note 5* – A$13.4 million Lucerne Group loan, as at 30 April 2018, related to the Litigation Funding Business and it is repayable on 31 December 2019 (A$2 million drawn down after 31 December 2017).

[73] Based on the latest capital raising at 14c per share, the convertible bonds will convert at 11.2c per share.

*Note 6* – After 31 December 2017, JKL has drawn down an additional working capital loan with Lucerne for A$3 million as at 30 April 2018.

#### 8.1.4 Tax losses

JKL has A$23 million of gross accumulated tax losses which we have considered separately in our valuation of JKL before the Proposed Transaction. Management has received indicative tax advice that the tax losses could be utilised to offset income generated by both the Litigation Funding Business and the Disbursement Funding Business. We note that the comparable companies do not have accumulated tax losses and accordingly, their value is not already reflected in the Receivable Multiple.

#### 8.1.5 JKL Options

The JKL Options are out of the money with an exercise price of A$0.25 per share. We have valued them based on the binomial option pricing model.

#### 8.1.6 JKL Shares

This includes 147,933,598 shares on issue plus 1,264,569 shares to be issued in relation to the performance rights which have already vested.

#### 8.1.7 JKL Sensitivity analysis

It should be noted that the equity value of JKL before the Proposed Transaction could vary materially based on changes in certain key assumptions. Accordingly, we have conducted certain sensitivity analysis below to highlight the impact on the equity value per JKL Share before the Proposed Transaction based on the Receivable Multiple caused by movements in certain key assumptions.

*Sensitivities: Low-end of GT assessed value range for JKL before the Proposed Transaction*

| Receivable Multiple and Discount rate | | Receivable multiple | | | | |
|---|---|---|---|---|---|---|
| | | 1.2x | 1.3x | 1.4x | 1.5x | 1.6x |
| | (0.50%) | 4.65 | 6.34 | 8.03 | 9.72 | 11.42 |
| | (0.25%) | 4.62 | 6.31 | 8.00 | 9.69 | 11.39 |
| Discount rate (increase/decrease) | -% | 4.59 | 6.28 | 7.97 | 9.66 | 11.35 |
| | 0.25% | 4.56 | 6.25 | 7.94 | 9.63 | 11.32 |
| | 0.50% | 4.52 | 6.22 | 7.91 | 9.60 | 11.29 |

*Sensitivities: High-end of GT assessed value range for JKL before the Proposed Transaction*

| Receivable Multiple and Discount rate | | Receivable multiple | | | | |
|---|---|---|---|---|---|---|
| | | 1.3x | 1.4x | 1.5x | 1.6x | 1.7x |
| | (0.50%) | 8.92 | 10.61 | 12.30 | 13.99 | 15.69 |
| | (0.25%) | 8.88 | 10.57 | 12.26 | 13.95 | 15.65 |
| Discount rate (increase/decrease) | -% | 8.84 | 10.53 | 12.22 | 13.92 | 15.61 |
| | 0.25% | 8.80 | 10.49 | 12.18 | 13.88 | 15.57 |
| | 0.50% | 8.76 | 10.45 | 12.15 | 13.84 | 15.53 |

These sensitivities do not represent a range of potential values of JKL Shares before the Proposed Transaction, but they intend to show to JKL Shareholders the sensitivity of our valuation assessment to changes in certain variables.

### 8.2 *Cross check – Desktop DCF*

Prior to reaching our valuation conclusion on the value of JKL Shares, we have also considered the DCF methodology as additional evidence to the valuation assessment of JKL Shares based on the Receivable Multiple.

For the purpose of our valuation assessment of JKL utilising the DCF method, Grant Thornton Corporate Finance has relied on cash flows projections prepared by Management of JKL until 31 December 2023 ("JKL Projections") which are based on the following:

- Historical financial performance of JKL.
- Budget for FY19 which has been approved by the Board.
- The adoption of the AASB9 accounting principles.
- Based on the funding in place at the date of our valuation assessment having particularly regard to the current limit on the Assetsecure Facility which caps the growth opportunities for JKL.

Whilst Grant Thornton Corporate Finance believes that the assumptions underlying the JKL Model are reasonable and appropriate to be adopted for the purpose of our valuation, in accordance with the requirements of RG111, we have not disclosed them in our IER as they contain commercially sensitive information and they do not meet the requirements for presentation of prospective financial information as set out in ASIC Regulatory Guide 170 *"Prospective Financial Information"*.

In accordance with the requirement of RG 111, we have undertaken a critical analysis of the JKL Projections before adopting them for the purpose of our valuation assessment. Specifically, we have performed the following analysis:

- Conducted high level checks, including limited procedures in relation to the mathematical accuracy.
- Performed a broad review, critical analysis and benchmarking with the historical performance of JKL and current trends in the industry.
- Held discussions and interviews with Management of the Company and its advisor to discuss the key underlying assumptions.
- Reviewed and benchmarked revenue growth rates and earnings margins with listed peers.

The assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar businesses. We note that the assumptions are inherently subject to considerable uncertainty and there is significant scope for differences of opinion. It should be noted that the value of JKL could vary materially based on changes to certain key assumptions.

Accordingly, we have conducted certain sensitivity analysis to highlight the impact on the value of JKL Shares caused by movements to certain key assumptions.

The table below summarises our valuation assessment based on the DCF approach.

| JKL DCF method - valuation summary<br>A$'000s | Section<br>Reference | Low | High |
|---|---|---|---|
| Equity value of Disbursement business[1] | 8.2.1 | 15,873 | 17,536 |
| Enterprise value of Litigation Business | 8.1.2 | 16,346 | 20,115 |
| Less: net debt of the Litigation Business | 8.1.3 | (23,400) | (23,400) |
| Add: Fair market value of the tax losses | 8.1.4 | 6,341 | 6,394 |
| Less: Fair market value of the JKL Options | 8.1.5 | (1) | (1) |
| **Equity value of JustKapital (on a control basis)** | | **15,160** | **20,643** |
| Number of outstanding shares | 8.1.6 | 149,198 | 149,198 |
| **Equity value per share (control basis) (A$ cents per share)** | | **10.16** | **13.84** |

*Sources: JKL Management; GTCF analysis*
*Note 1: Includes valuation of NHF Founders Incentive Payment*

### 8.2.1 Equity value of the Disbursement Business

The key underlying assumptions adopted in our DCF Method are outlined below:

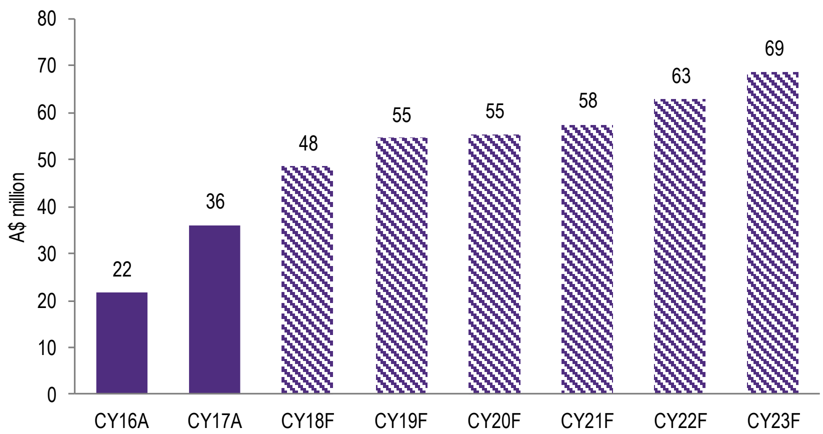
- Our valuation assessment is based on the net present value of the equity cash flows. We are of the opinion that given the ability of JKL to continue to grow its disbursements is linked to the availability of the Assetsecure Facility or alternative similar funding, equity cash flows provide better evidence of the financial performance of the business.

- We have restricted the growth in JKL's Disbursement business to the current Assetsecure Facility limit of A$35 million.

- The growth in the disbursements in FY18 and FY19 is consistent with the guidance provided to the market in February 2018.

- Growth in the gross loan receivables is outlined in the graph below:

**JustKapital - Disbursement funding loan receivables (gross)**




*Sources: JKL Management and GTCF analysis*

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Whilst the growth in the gross loan receivables is significant, we note that JKL is expected to remain within the limit of its current Assetsecure Facility and JKL has been experiencing significant growth in the gross loan receivable since the acquisition of MML in 2016. Other key operating assumptions are consistent with the historical information as outlined below:

- JKL pays for the disbursement and immediately issues an invoice to the law firm for the cost of the disbursement plus a standard mark up.
- Average length of a case is c. 20 months.
- JKL’s provision for doubtful debts is estimated at circa 11%.
- Assetsecure finances c.63%[74] of the face value of total outstanding invoices.
- Corporate costs of circa A$3 million.
- Tax is calculated adopting the 30% corporate tax rate.
- Capital expenditure and movements in working capital are considered negligible.
- In the calculation of the terminal value, we have normalised the growth in the gross loan receivables at the end of the discrete forecast period in order to ensure that the perpetual cash flows reflect steady-state operations. Long-term growth rate of 2.5% has been adopted which is in line with the RBA's policy to maintain long-term inflation rate between 2% and 3%.
- We have adopted a discount rate based on the cost of equity between 15.0% and 16.5% which is based on the Capital Asset Pricing Model (“CAPM”) and a benchmark with publicly available information.

The value range under the DCF approach is slightly higher, in particular at the low-end, than the Receivable Multiple, however it overall supports our valuation assessment. We note that due to the high level of gearing of JKL before the Proposed Transaction, small changes to the enterprise value have a material impact on the equity value.

## 8.3 *Quoted price of securities*

In our assessment of the fair market value of JKL Shares, we have also reviewed the trading prices of the listed securities on the ASX. In accordance with the requirements of RG111, we have considered the liquidity and depth of the trading on the ASX.

[74] Assetsecure finances 70% of total outstanding invoices but retains 7% as holdback.

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8.3.1 Liquidity analysis

To assess the liquidity of JKL Shares, we have analysed the trading volume over the last year as a percentage of the shares outstanding and free float as outlined in the table below:

| Month end | Volume traded ('000) | Monthly VWAP ($) | Total value of shares traded ($'000) | Volume traded as % of free float shares | Comulative volume traded as % of free float shares | Volume traded as % of total shares | Comulative volume traded as % of total shares |
|---|---|---|---|---|---|---|---|
| Jun-2017 | 1,154 | 0.2112 | 244 | 1.4% | 1.4% | 0.9% | 0.9% |
| Jul-2017 | 1,309 | 0.2063 | 270 | 1.6% | 3.0% | 1.0% | 2.0% |
| Aug-2017 | 2,742 | 0.1656 | 454 | 3.4% | 6.4% | 2.2% | 4.1% |
| Sep-2017 | 3,271 | 0.1905 | 623 | 4.0% | 10.4% | 2.6% | 6.7% |
| Oct-2017 | 1,615 | 0.1700 | 275 | 2.0% | 12.4% | 1.3% | 8.0% |
| Nov-2017 | 5,679 | 0.1245 | 707 | 7.0% | 19.4% | 4.5% | 12.5% |
| Dec-2017 | 15,061 | 0.0863 | 1,300 | 16.1% | 35.6% | 10.4% | 22.9% |
| Jan-2018 | 6,326 | 0.0823 | 521 | 6.6% | 42.2% | 4.3% | 27.2% |
| Feb-2018 | 4,465 | 0.0735 | 328 | 4.7% | 46.9% | 3.0% | 30.2% |
| Mar-2018 | 4,672 | 0.0688 | 322 | 4.9% | 51.8% | 3.2% | 33.4% |
| Apr-2018 | 3,262 | 0.0685 | 223 | 3.5% | 55.3% | 2.2% | 35.7% |
| May-2018 | 2,499 | 0.0655 | 164 | 2.6% | 57.9% | 1.7% | 37.4% |
| Jun-2018 | 1,606 | 0.0731 | 117 | 1.7% | 59.6% | 1.1% | 38.5% |
| **Min** | | | | **1.4%** | | **0.9%** | |
| **Average** | | | | **4.8%** | | **3.1%** | |
| **Median** | | | | **3.7%** | | **2.4%** | |
| **Max** | | | | **16.1%** | | **10.4%** | |

*Source: S&P Global and GTCF analysis*

With regard to the above analysis, we note that:

- In the absence of a takeover or alternate transactions, the trading prices represent the value at which minority shareholders could realise their portfolio investment.
- JKL complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the performance of JKL.
- Over the last twelve month period, circa 59.6% of the free float shares and 38.5% of the total shares have traded on the ASX.
- JKL Shares have been quite volatile over the observed period (i.e. last 12 months), with the minimum and maximum monthly VWAP price varying between A$0.07 and A$0.21. This is explained further in our analysis of the daily movements in JKL's share price and volumes, and market conditions in section 4.

Based on the above, we note that the liquidity of JKL shares is somehow low and, accordingly, the trading share price of JKL may not be fully reflective of market value.

Whilst, we have not adopted the quote security method as a primary valuation method due to the limited liquidity of JKL shares, we have had regard to the share price of JKL on a cross check basis.

Set out below is the VWAP of JKL share price before the announcement of the Proposed Transaction.

| VWAP<br>A$ per share | | Low | High | VWAP |
|---|---|---|---|---|
| Prior to | 18 Jul 2018 | | | |
| 5 day | | 0.074 | 0.080 | 0.076 |
| 10 day | | 0.073 | 0.080 | 0.077 |
| 1 month | | 0.065 | 0.080 | 0.072 |
| 2 month | | 0.065 | 0.081 | 0.073 |
| 3 month | | 0.060 | 0.081 | 0.069 |
| 4 month | | 0.060 | 0.081 | 0.069 |
| 5 month | | 0.055 | 0.081 | 0.069 |
| 6 month | | 0.055 | 0.082 | 0.071 |
| 9 month | | 0.055 | 0.160 | 0.085 |

*Sources: S&P Global and GTCF analysis*

The average trading VWAPs for the selected periods above have ranged between A$0.069 and A$0.085 before the announcement of the Proposed Transaction on a minority basis. The trading prices before the announcement of the Proposed Transaction supports our valuation assessment of JKL based on the Receivable Multiple once a premium for control is taken into account.

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# 9 Valuation assessment of Merged Entity after the Proposed Transaction

In this section of the report, we have estimated the fair market value of the Merged Entity after the Proposed Transaction on a minority basis.

In assessing the fair market value of the Merged Entity, Grant Thornton Corporate Finance has aggregated the market value of the combined operations of JKL and NHF on a stand-alone basis, considered any potential synergies to be realised as a result of the Proposed Transaction and other adjustments as set out in the pro-forma balance sheet of the Merged Entity.

## 9.1 *Merged Entity – Receivable Multiple Valuation*

Set out below is a summary of our valuation assessment of JKL after approval of the Proposed Transaction on a minority basis having regard to the Receivable Multiple. We have performed our fairness assessment under two scenarios:

- *Warrants Not Exercised Scenario* – this scenario assumes that the Warrants will not be exercised by the holders as the exercise price of A$0.14 for the Warrants is out of the money based on our valuation assessment of JKL. Accordingly we have valued the Warrants using the binomial option pricing model (see section 9.1.3 for further details).

- *Warrants Exercised Scenario* – this scenario assumes that the Warrant holders will exercise all of their Warrants on completion of the Proposed Transaction resulting in additional cash of A$63.4 million to the Merged Entity and the issue of 452.7 million new JKL Shares.

Fairness assessment

| Valuation Summary of the Merged Entity after the Proposed Transaction | | Warrants Not Exercised Scenario | | Warrants Exercised Scenario | |
|---|---|---|---|---|---|
| | *Section* | Low [1] | High [1] | Low [1] | High [1] |
| Receivable multiple | *Reference* | A$'000 | A$'000 | A$'000 | A$'000 |
| JKL - Receivable Book Value as at 31 December 2017 | *8.1.1.1* | 25,245 | 25,245 | 25,245 | 25,245 |
| NHF - Receivable Book Value as at 31 December 2017 [2] | *9.1.1* | 116,435 | 116,435 | 116,435 | 116,435 |
| Total Receivables as at 31 December 2017 | | 141,680 | 141,680 | 141,680 | 141,680 |
| Assessed receivable multiple (minority basis) | *9.1.2* | 1.4x | 1.5x | 1.4x | 1.5x |
| EV of LawFinance - Receivable Funding Business | | 198,352 | 212,520 | 198,352 | 212,520 |
| EV of the Litigation Business | *8.1.2* | 16,346 | 20,115 | 16,346 | 20,115 |
| **Total EV of the Merged Entity** | | **214,698** | **232,634** | **214,698** | **232,634** |
| Less: Net Debt [3] | *9.1.2* | (131,872) | (131,872) | (131,872) | (131,872) |
| Plus: Cash inflow from exercise of Warrants [5] | | na | na | 63,384 | 63,384 |
| Less: Net debt - Litigation Business | *8.1.3* | (18,400) | (18,400) | (18,400) | (18,400) |
| Add: Fair market value of tax losses | *8.1.4* | 6,341 | 6,394 | 6,341 | 6,394 |
| Less: Fair Market value of JKL Options | *8.1.5* | (1) | (1) | (1) | (1) |
| Less: Fair market value of warrants [4] | *9.1.3* | (8,530) | (14,375) | - | - |
| Less: NPV of incentive payment | *9.1.4* | (6,113) | (6,163) | (6,113) | (6,163) |
| **Equity Value of the Merged Entity** | | **56,124** | **68,218** | **128,038** | **145,977** |
| Number of outstanding shares [6] | *9.1.5* | 592,421 | 592,421 | 1,045,164 | 1,045,164 |
| **Equity value per share (minority basis) (A$ cents per share)** | | **9.47** | **11.52** | **12.25** | **13.97** |

*Source: GTCF analysis*

*Notes: 1. Based on Management's assumption that 38% of the Rights Issue is taken up; 2. Based on the Valuation Date Exchange Rate and Controlling Interests of 97%; 3. For exchange rate used, see Section 9.1.2; 4. Fair market value of warrants calculated based on the equity value per share in the Warrants Not Exercised Scenario. In Warrants Exercised Scenario, we assume the Warrants are exercised and accordingly we no do not perform a valuation of the Warrants for this scenario; 5. Cash from exercise of the 452.7 million Warrants at an exercise price of A$0.14; 6. For the Warrants Exercised scenario, the number of outstanding shares includes 452.7 million Warrants, see section 9.1.3 for details.*

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### 9.1.1 Receivable funding business

In our valuation assessment of the Merged Entity, we have relied on the book value of the receivable book as at 31 December 2017 which has been reviewed by the auditors and prepared in accordance with AASB 9 as summarised in the table below.

| Total receivables book value of the Merged Entity | *Section Reference* | Low A$'000 | High A$'000 |
|---|---|---|---|
| JKL - Receivable Book Value as at 31 December 2017 | *8.1.1.1* | 25,245 | 25,245 |
| NHF - Receivable Book Valueas at 31 December 2017 | | 116,435 | 116,435 |
| **Total Receivables as at 31 December 2017** | | **141,680** | **141,680** |

*Sources: JKL financial report and NHF 31 December 2018 restated balance sheet under AASB 9.*

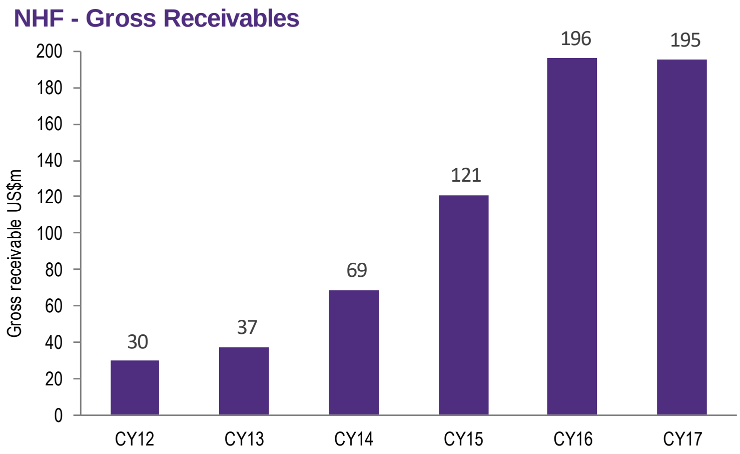
The table below summarises the calculation for NHF net receivables as at 31 December 2017.

| NHF net receivables | |
|---|---|
| NHF net receivables as per annual report at 31 December 2017 (US$ '000) | 93,740 |
| Pro forma adjustments for AASB 9 (US$ '000) | (3,713) |
| **Receivable as per AASB 9 (US$ '000)** | **90,027** |
| Controlling interests | 97% |
| **NHF net receivbles (US$ '000)** | **87,326** |
| Valuation Date Exchange Rate | 0.75 |
| **NHF net receivables (A$ '000)** | **116,435** |

*Sources: JKL Management, GTCF analysis.*
*Note: 1. We have accounted for NHF's non-controlling interest of c. 3% based on NHF's 31 December 2017 financial statements.*

Refer to section 8.1.1.1 for our discussion about the receivables of JKL.

We have set out in the graph below the trend in the gross receivables of NHF since December 2012.




*Source: NHF financial reports*

In relation to the graph above, we note that NHF has historically demonstrated an ability to increase the receivables balance when capital/debt facilities were available to grow the business. In 2016, following the raising of new debt facilities, NHF was able to substantially increase its loan book in Florida, Michigan, and Texas. In Florida alone, it generated US$74M of gross receivables with an investment of circa US$23 million. In the same year, NHF commenced expansion in Michigan (Quarter 3 of 2016) were it generated US$20M in new gross receivables from US$3.2 million of invested capital. Similarly, in the state of Texas, growth increased in Quarters 2 and 3 of 2016 with a total commitment of US$2.6M originating US$9.2M in gross receivables.

The slowdown in the gross receivables growth in 2017 was mainly driven by the limited availability of further capital to continue to grow the business. However, NHF has recently renegotiated its funding facilities and NHF currently supports its business via a US$80 million financing facility from Atalaya which, as at 31 December 2017, was only drawn down to the amount of US$38.3 million.

The receivable book value of A$116.4 million has been calculated based on an exchange rate of 0.75 and taking into account 97% of the receivable book value to consider the impact of the non-controlling interests in the affiliate network

*Receivable Multiple*

In our assessment of the Receivable Multiple applicable to the Merged Entity, in addition to the Australian listed peers discussed in section 8.1, we have also considered US peers with operations similar to the Merged Entity's medical lien purchasing business. However, we note that all of the Merged Entity's key competitors in the US are privately owned with limited publicly available information. In addition, the US peers report under US GAAP—as opposed to AASB 9—and therefore the carrying value of receivables is not directly comparable to that of the Merged Entity[75].

In our assessment of the Receivable Multiple of the Merged Entity, we have adopted the same multiple between 1.4x and 1.5x but on a minority basis[76] based on the following considerations:

- The book value of the receivable of the Merged Entity is substantially in-line with most of the listed peers and circa 5.5x bigger than JKL on a stand-alone basis before the Proposed Transaction. There is usually a strong correlation between the size of the receivable book and the receivable multiple.

- The vast majority of the Merged Entity's receivable is derived by the US business. The US market is significantly larger than the Australian one and it has significantly higher growth opportunities. We note that among the Australian listed peers, Credit Corp is the only one that has significant exposure to the US and it is trading at a higher Receivable Multiple which, in our opinion, is driven by the growth expectations of its US operations.

- NHF, via the affiliates model, is able to target specific growth opportunities in more favourable jurisdictions and it has historically demonstrated an ability to increase the receivables balance when capital/debt facilities were available to grow the business.

Notwithstanding the above, the selected Receivable Multiple range is still at a discount to average multiple of the listed Australian peers which we believe it is reasonable due to the significantly higher gearing level of the Merged Entity which bring additional risks for JKL Shareholders.

[75] The US GAAP classifies the loan receivables under legal form criteria together with intent and ability, whereas AASB9 under the contractual cash flow and business model of the company.
[76] The selected multiple between 1.4x and 1.5x applied to JKL before the Proposed Transaction is on a control basis.

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### 9.1.2 Net debt of the Merged Entity

We have set out in the table below a summary of the net debt of the Merged Entity as at 31 December 2017.

| Merged Entity net debt post Proposed Transaction completion | Note | A$'000 | US$'000 |
|---|---|---|---|
| *JKL Disbursement Funding Business* | | | |
| Assetsecure Facility | | 23,194 | 17,859 |
| JKL surplus cash | | (456) | (351) |
| **Net debt of the JKL Disbursement Funding Business** | **A** | **22,738** | **17,508** |
| *NHF Medical Lien Purchasing Business* | | | |
| Atalaya Facility [6] | | 49,535 | 37,151 |
| NHF third party notes | | 6,000 | 4,500 |
| NHF Founders Notes | | 12,000 | 9,000 |
| NHF US$ 1.7m Subordinated notes | | 1,333 | 1,000 |
| NHF surplus cash (as per pro-forma) | | (3,715) | (2,786) |
| **Net debt of the NHF Medical Lien Purchasing Business [3]** | **B** | **65,153** | **48,865** |
| *Acquisition finance* | | | |
| Syndicated Acquisition Facility [4] | | 42,000 | 32,340 |
| Vendor Loan [4] | | 17,200 | 13,244 |
| Surplus cash from the Proposed Transaction [2,5] | | (15,220) | (11,567) |
| **Acquisition finance net debt** | **C** | **43,980** | **34,018** |
| *Litigation Portfolio* | | | |
| JKL Convertible Bonds [1] | | - | - |
| Vendor Loan | | 2,000 | 1,500 |
| Lucerne Loans | | 13,400 | 10,050 |
| Lucerne Working Capital Loan | | 3,000 | 2,250 |
| **Net debt of the Litigation Portfolio** | **D** | **18,400** | **13,800** |
| **Merged Entity Net debt as at 31 December 2017** | **E=A+B+C+D** | **150,272** | **114,191** |

*Source: NOM, GTCF analysis*

*Notes: 1. Assuming the JKL Convertible Bonds are converted into 78,125,000 JKL Shares on completion of the Proposed Transaction; 2. Based on Management's assumption that 38% of the Rights Issue is taken up. 3. Based on the Valuation Date Exchange Rate; 4. Based on the Deal Structure Exchange Rate; 5. Refer to table in Note C below for exchange rate utilised; 6. Adjusted for 97% Controlling interest*

Note A – represents the drawn down amount of the Assetsecure Facility and JKL surplus cash as at 31 December 2017, which has been pro-forma adjusted for the non-contingent transaction expenses. We understand from discussions with JKL Management that the JKL Convertible Bonds holders will convert the A$5m convertible bonds to 78,125,000 shares at a conversion rate of A$6.4 cents (20% below 8 cents Placement and Rights Issue price) following implementation of the Proposed Transaction. This seems a reasonable assumption given that based on the conversion price and our valuation assessment of the Merged Entity, the JKL Convertible Bonds are in-the money.

Note B – represents the drawn down amount of the Atalaya Facility plus third party notes, NHF Founders Notes, US$1.7m of subordinated notes and surplus cash of c. US$2.8 million. We note that on completion of the Proposed Transaction, US$1 million of the NHF Founders Notes and US$0.7 million of the third party notes will be repaid. Accordingly we have adjusted the NHF Founders Notes and third party notes in the table above to reflect this repayment on completion and we have deducted an equivalent amount from the surplus cash balance of the Merged Entity (see note C below).

Note C – The surplus cash has been calculated as set out below:

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| Calculation of surplus cash from the Proposed Transaction | A$'000 | US$'000 |
|---|---|---|
| *Cash inflows* | | |
| Syndicated Acquisition Facility[1] | 42,000 | 32,340 |
| Placement[2] | 7,500 | 5,625 |
| Rights Issue (based on 38% take-up)[2] | 4,500 | 3,375 |
| *Cash outflows* | | |
| Presidio Consideration[1] | (34,416) | (26,500) |
| Transaction costs contingent upon completion of the Proposed Transaction[2] | (2,098) | (1,574) |
| US$1m and US$700k repayments of NHF Founder Notes and NHF third party notes respectively[2] | (2,267) | (1,700) |
| **Surplus cash from the Proposed Transaction** | **15,220** | **11,567** |

*Note: 1. Based on Deal Structure Exchange Rate; 2. Based on Valuation Date Exchange Rate*

Note D – refer to section 8.1.3 for details.

### 9.1.3 Fair market value of the Warrants

Upon completion of the Proposed Transaction, JKL will issue 452.7 million warrants with an exercise price of A$0.14 per warrant and an expiry date of 4 years after the issue. In our valuation of the warrants, we have adopted the binomial model having regard to the following assumptions:

- *Underlying share price* – based on our valuation assessment of the Merged Entity on a minority basis.
- Exercise price – 14 cents per warrant.
- Expiry date – 4 year from the issue date.
- Volatility – estimated at circa 40% based on a benchmark undertaken with comparable companies.

### 9.1.4 Incentive payment to the NHF Founders

Under the terms of the employment contracts, the NHF Founders are entitled to receive an non-discretionary bonus of up to US$8.3 million or circa A$11.0 million (50/50 split) paid in equal instalments over five quarters ("NHF Founders Incentive Payment"). The NHF Founders Incentive Payment is contingent on:

- NHF's current lender, Atalaya, providing consent for each payment. We note that each payment will be at Atalaya's absolute discretion. The Syndicated Facility Agreement provides for similar approval from the participants to the Syndicated Facility Agreement.
- At least US$50.0 million having been collected from the NHF loan book as at 31 December 2017.
- The total level of net loan receivables, which is the accounts receivable (gross) less provision for doubtful debts is as follows:

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| Date<br>(US$m) | Net loan receivables |
|---|---|
| March 2020 | 175 |
| June 2020 | 180 |
| September 2020 | 190 |
| December 2020 | 199 |
| March 2021 | 209 |

- The US$10 million NHF Founders Notes[77] issued to the NHF Founders have been repaid in full. We note that the promissory notes already existed on the balance sheet of NHF as at 31 December 2017.

We note that if NHF's loan receivables book performs in-line with the historical performance, the NHF Founders Incentive Payment is expected to be paid in full (subject to the approval of the financiers).

For the purpose of our valuation assessment, we have calculated the net present value of the after tax NHF Founders Incentive Payment based on a discount rate between 13.0% and 13.5%.

### 9.1.5 Merged Entity Shares

We provide a breakdown of the Merged Entity number of shares on under both the Warrants Not Exercised and Warrants Exercised scenarios:

| Merged Entity<br>Number of shares | *Section Reference* | Shares |
|---|---|---|
| JustKapital ordinary outstanding shares | *8.1.6* | 147,933,598 |
| JKL performance rights | *8.1.6* | 1,264,569 |
| Placement | *1.4* | 93,750,000 |
| Rights Issue[1] | *1.4* | 56,250,000 |
| NHF Founders scrip offer | *1.1* | 215,097,403 |
| JKL Convertible Bond | *9.1.2* | 78,125,000 |
| **Total Shares (Warrants Not Exercised Scenario)** | | **592,420,570** |
| Syndicated Acquisition Facility Warrants plus 30m WHSP cornerstone due diligence warrants | | 329,880,000 |
| NHF Founder Warrants | | 122,863,636 |
| **Total Shares (Warrants Exercised Scenario)** | | **1,045,164,206** |

*Source: JKL Management*
*Note: 1. Based on Management's assumption that 38% of the Rights Issue is taken up.*

### 9.1.6 Merged Entity Sensitivity analysis

It should be noted that the equity value of the Merged Entity after the Proposed Transaction could vary materially based on changes in certain key assumptions. Accordingly, we have conducted certain sensitivity analysis below to highlight the impact on the equity value per Merged Entity Share after the Proposed Transaction based on the Receivable Multiple caused by movements in certain key assumptions. We have performed our sensitivity analysis on the Warrants Not Exercised Scenario.

77 The US$ 10 million NHF Founders Notes are being paid in four equal instalments, being US$1.0 million on the closing of the Proposed Transaction and subsequently every 6 months over the following 18 months.

*Sensitivities: Low-end of GT assessed value range for the Merged Entity after the Proposed Transaction*

| Receivable Multiple and Discount rate | | Receivable multiple | | | | |
|---|---|---|---|---|---|---|
| | | 1.2x | 1.3x | 1.4x | 1.5x | 1.6x |
| | (0.50%) | 4.70 | 7.09 | 9.48 | 11.87 | 14.26 |
| | (0.25%) | 4.69 | 7.09 | 9.48 | 11.87 | 14.26 |
| Discount rate (increase/decrease) | -% | 4.69 | 7.08 | 9.47 | 11.87 | 14.26 |
| | 0.25% | 4.69 | 7.08 | 9.47 | 11.86 | 14.25 |
| | 0.50% | 4.68 | 7.08 | 9.47 | 11.86 | 14.25 |

*Sensitivities: High-end of GT assessed value range for the Merged Entity after the Proposed Transaction*

| Receivable Multiple and Discount rate | | Receivable multiple | | | | |
|---|---|---|---|---|---|---|
| | | 1.3x | 1.4x | 1.5x | 1.6x | 1.7x |
| | (0.50%) | 11.53 | 11.53 | 11.53 | 11.53 | 11.53 |
| | (0.25%) | 11.52 | 11.52 | 11.52 | 11.52 | 11.52 |
| Discount rate (increase/decrease) | -% | 11.52 | 11.52 | 11.52 | 11.52 | 11.52 |
| | 0.25% | 11.51 | 11.51 | 11.51 | 11.51 | 11.51 |
| | 0.50% | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 |

These sensitivities do not represent a range of potential values of Merged Entity Shares after the Proposed Transaction, but they intend to show to JKL Shareholders the sensitivity of our valuation assessment to changes in certain variables.

## 9.2 ***Cross check – Desktop DCF***

Prior to reaching our valuation conclusion on the value of Merged Entity Shares, we have also considered the DCF methodology as additional evidence to the valuation assessment of Merged Entity Shares based on the Receivable Multiple.

For the purpose of our valuation assessment of Merged Entity utilising the DCF method, Grant Thornton Corporate Finance has relied on cash flows projections of the Merged Entity based on the cash flow projections of JKL and NHF until 31 December 2023 prepared by the respective Managements. For details regarding JKL Projections please refer to section 8.2. The NHF cash flows projections until 31 December 2023 (“NHF Projections”) are based on the following:

- Historical financial performance of NHF.
- Budget for FY19, which has been approved by the Board.
- The expansion strategy planned by NHF Management.
- The adoption of the AASB9 accounting principles.
- Based on the funding in place at the date of our valuation assessment having particular regard to the current limit on the Atalaya facility, which caps the growth opportunities for NHF.

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Refer to section 8.2 for an overview of the procedures undertaken by Grant Thornton Corporate Finance on the projections and related limitations.

The table below summarises our valuation assessment based on the DCF approach.

| Merged Entity DCF method - valuation summary A$'000s | Section Reference | Low A$'000 | High A$'000 |
|---|---|---|---|
| Equity value of JKL | 8.2.1 | 15,873 | 17,536 |
| Equity value of NHF[2] | | 60,042 | 66,342 |
| Enterprise value of Litigation business | 8.1.2 | 16,346 | 20,115 |
| Less: Net debt of the Litigation Business | 9.1.2 | (18,400) | (18,400) |
| Plus: Fair value of Tax losses | 8.1.4 | 6,341 | 6,394 |
| Less: Fair market value of Merged Entity Warrants[2] | 9.1.3 | (7,475) | (13,130) |
| Less: Fair market value of JKL Options (A$'000) | 8.1.5 | (1) | (1) |
| **Equity value (on a control basis)** | | **72,727** | **78,855** |
| Number of Merged Entity outstanding ordinary shares ('000s)[1] | 9.1.5 | 592,421 | 592,421 |
| **Value per share (control basis) (A$ cents per share)** | | **12.3** | **13.3** |
| Less: Minority discount | 8.1.7 | 29.0% | 17.0% |
| **Merged Entity Value per share (minority basis) (A$ cents per share)** | | **8.72** | **11.05** |

*Sources: JKL Management; GTCF analysis*
*Note: 1. Based on Management's assumption that 38% of the Rights Issue is taken up and assuming conversion of the JKL Convertible Bonds. 2. Fair market value of warrants calculated based on the equity value per share*

### 9.2.1 Equity value of NHF

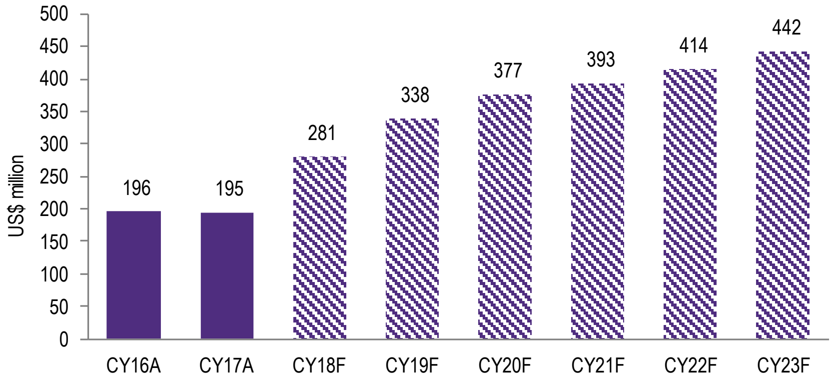
The key underlying assumptions adopted in our DCF Method are outlined below:

- Similarly, to JKL, our valuation assessment of NHF is based on the net present value of the equity cash flows.

- We have restricted the growth in NHF's disbursement business to the current limits in place for the Atalaya Facility of US$80 million with the possibility to expand to US$155 million.

Growth in the gross loan receivables is outlined in the graph below:

**NHF- Gross receivables**




*Sources: JKL Management, GTCF analysis*

The forecast growth in gross receivables is significant, however, based on the forecasts, NHF is expected to remain within the $US155 million Atalaya Facility limit, which is subject to agent/lender consent to increase it from the current US$80 million. We note that NHF has experienced significant growth in gross loan receivables in recent years as shown in section 9.1.1. This growth was impacted considerably in CY17 due to funding constraints from the Atalaya Facility. In April 2018, a new $US80 million facility limit was agreed, from $US50 million previously. NHF is also expecting cash collections from receivables of approximately US$15 million per year before related costs.

Whilst the growth in gross receivables is significant, we note that NHF has demonstrated the ability to achieve similar levels of growth as demonstrated between 2012 and 2016.

Other key operating assumptions are consistent with the historical information as outlined below:

- NHF purchases the medical lien from the Partner Provider at a reduced percentage of the face value for the procedures completed averaging between 30% to 35%. In exchange, NHF owns the medical provider's lien rights to the full face value of the charges.

- NHF's assumed return on invested capital ("ROIC") is 1.65x, which is conservative in comparison to the historical ROIC of c. 1.77x achieved by NHF between 2002 and 2017.

- The average length of a case is between 1 to 3 years.

- NHF's provision for doubtful debts is estimated at 52%.

- NHF's medical lien purchasing operations are 90% funded by the Atalaya Debt Facility.

- Corporate and operating expenses of circa US$7.7 million in CY18. NHF Management has indicated that the existing NHF infrastructure can accommodate a significant increase in volume with only a small increase in corporate overheads due to NHF's Affiliate Network structure.

- We have accounted for NHF's non-controlling interest of c. 3% based on NHF's 31 December 2017 financial statements.

- Tax is calculated based on a 30% corporate tax rate.

- Capital expenditure and movements in working capital are considered negligible.

- In the calculation of the terminal value, we have normalised the growth in the gross loan receivables at the end of the discrete forecast period in order to ensure that the perpetual cash flows reflect steady-state operations. Long-term growth rate of 2.5% has been adopted based on our expectation of the long-term growth rate of the medical lien purchasing industry in the United States.

- We have adopted a discount rate based on the cost of equity of between 15.5% and 17.0%, which is based on the CAPM and a benchmark with publicly available information.

- In our valuation assessment of the Merged Entity based on the DCF approach, we have applied a minority discount of 29% and 17% to the low and high end of our value range respectively. This represents the inverse of a premium for control of between 20% and 40%.

The value range under the DCF approach is slightly higher than the Receivable Multiple; however, overall it supports our valuation assessment.

# 10 Sources of information, disclaimer and consents

## 10.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Annual and semi-annual financial reports/ consolidated accounts of JKL for FY15 to FY18.
- Annual financial reports/ consolidated accounts of NHF for CY12 to CY17.
- Investor presentations of JKL.
- Announcements made by JKL on the ASX.
- JKL and NHF's website.
- S&P Global.
- IBISWorld.
- Various broker's reports.
- Other publicly available information.
- Discussions with JKL and NHF Management.

## 10.2 Qualifications and independence

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to  and all other parties involved in the Proposed Transaction with reference to the ASIC Regulatory Guide 112 "Independence of expert" and APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to JKL, its shareholders and all other parties involved in Proposed Transaction.

Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with JKL or its associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Proposed Transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposed Transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

## 10.3 *Limitations and reliance on information*

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by JKL and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by JKL through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of JKL.

This report has been prepared to assist the Directors in advising the Non-Associated Shareholders in relation to the Proposed Transaction. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

JKL has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by JKL, which JKL knew or should have known to be false and/or reliance on information, which was material information JKL had in its possession and which JKL knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. JKL will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

## 10.4 *Consents*

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Notice of Meeting and Explanatory Memorandum to be sent to the Non-Associated Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

## *Appendix A – Valuation methodologies*

**Capitalisation of future maintainable earnings**

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

**Discounted future cash flows**

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

**Orderly realisation of assets**

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

**Market value of quoted securities**

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

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## *Appendix B – Discount rate*

### *Introduction*

The cash flow assumptions associated with the JKL Disbursement Funding business and NHF have been prepared on a nominal, geared and post-tax basis. We have adopted the cost of equity as the discount rate to value JKL before the Proposed Transaction and the Merged Entity after the Proposed Transaction, having regard to the cash flows attributable to the equity holders of JKL before and after the Proposed Transaction.

For valuing the Litigation business, Tax losses and NHF Founders Incentive Payment, we have adopted the WACC approach.

The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the nominal WACC is calculated as follows:

$$\mathrm{WACC} = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- $R_e$ = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- $R_d$ = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

## WACC Inputs

*Required rate of return on equity capital*

We have used the Capital Asset Pricing Model ("CAPM"), which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising of risk-free and risky investments. The total risk of an investment comprises of systematic and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion. Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market - it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (Re) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- $R_f$ = risk free rate
- $\beta_e$ = expected equity beta of the investment
- (Rm – Rf) = market risk premium

*Risk free rate*

In the absence of an official risk free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. We have observed the yield on the 10-year Australian Commonwealth Government Bond over the several intervals from a period of 5 trading days to 10 trading years as set out in the table below:

| Australia Government Debt - 10 Year | | | | |
|---|---|---|---|---|
| as at 10 July 2018 | | Range | | Daily average |
| Previous 5 trading days | 2.62% | - | 2.65% | 2.64% |
| Previous 10 trading days | 2.60% | - | 2.65% | 2.63% |
| Previous 20 trading days | 2.60% | - | 2.69% | 2.64% |
| Previous 30 trading days | 2.60% | - | 2.84% | 2.68% |
| Previous 60 trading days | 2.60% | - | 2.92% | 2.74% |
| Previous 1 year trading | 2.48% | - | 2.92% | 2.71% |
| Previous 2 years trading | 1.82% | - | 2.99% | 2.57% |
| Previous 3 years trading | 1.82% | - | 3.04% | 2.59% |
| Previous 5 years trading | 1.82% | - | 4.44% | 2.95% |
| Previous 10 years trading | 1.82% | - | 6.48% | 3.92% |

*Source: S&P Global and GTCF analysis*

Given the unprecedented, historically low Australian Commonwealth Government Bond yields as a result of the volatility in global equity markets, we believe utilising a long-term average yield is reasonable given the current economic climate, as set out below

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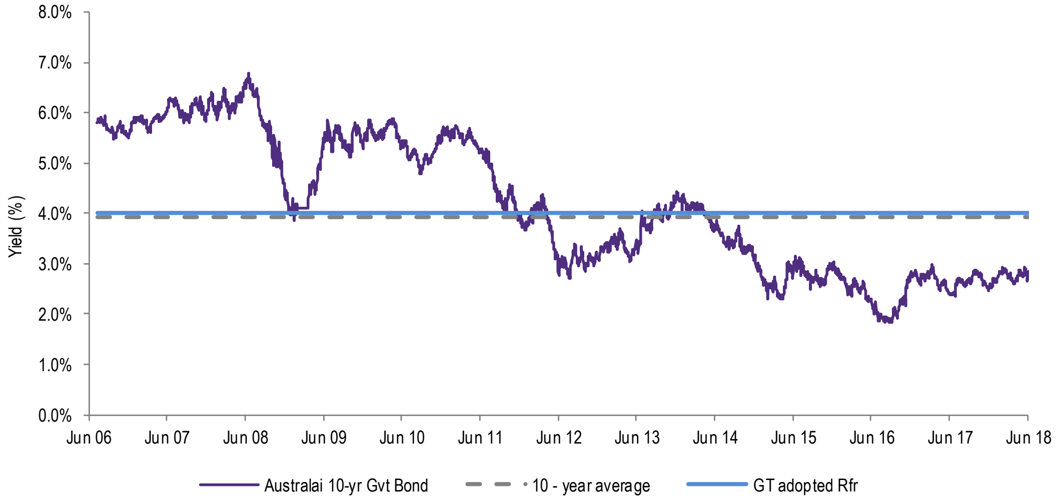
### Australia 10 year Governments Bonds




*Sources: S&P Global and GTCF calculations*

Accordingly, we have adopted a risk free rate of 4.0% to value JKL before the Proposed Transaction, which is consistent with our view of an appropriate long-term risk free rate estimate.

In assessing the value of JKL's Litigation Funding Business, we have adopted a risk free rate of 2.5% based on the 2 year average of the 10-year Government Bonds. This to reflect the approximately two years of time remaining for the cases in the Litigation Portfolio.

In valuing the NHF Projections we have adopted a US$ denominated risk free rate of 3.5%. Our analysis of the 10-year US Government Bond is set out below:

| United States Treasury Constant Maturity - 10 Year | | | | |
|---|---|---|---|---|
| as at 10 July 2018 | | Range | | Daily average |
| Previous 5 trading days | 2.82% | - | 2.87% | 2.84% |
| Previous 10 trading days | 2.82% | - | 2.88% | 2.85% |
| Previous 20 trading days | 2.82% | - | 2.98% | 2.89% |
| Previous 30 trading days | 2.77% | - | 2.98% | 2.90% |
| Previous 60 trading days | 2.77% | - | 3.11% | 2.86% |
| Previous 1 year trading | 2.05% | - | 3.11% | 2.58% |
| Previous 2 years trading | 1.43% | - | 3.11% | 2.35% |
| Previous 3 years trading | 1.37% | - | 3.11% | 2.23% |
| Previous 5 years trading | 1.37% | - | 3.11% | 2.33% |
| Previous 10 years trading | 1.37% | - | 4.16% | 2.54% |

*Sources: S&P Global and GTCF analysis*

The graph below shows the yield on the 10-year US Treasury Since January 2017:

**10-year United states Treasury Bonds yield**


*Source: S&P Global and GTCF analysis*

We note that the current spot yield is approximately 2.9%. However, given that the US Federal Reserve has raised the cash rates five times in the last 18 months, including on 14 June 2018 to between 1.75% to 2.00% and has signalled further increases over the next two years[78] we have assessed a long-term risk-free rate of c.3.5%. This is also consistent with forward rates and future yield curve.

*Market risk premium*

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time. In this regard, Grant Thornton studies of the historical risk premium over periods of 20 to 80 years suggest the premium is between 5.5% and 6.0% in Australia and between 4.5% and 6.0% in US.

Accordingly, for the purpose of the CAPM assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 6% for JKL before the Proposed Transaction and for JKL Disbursement Funding Business, and 5.5% for NHF valuation.

*Beta*

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the

[78] A majority of Federal Open Market Committee ("FOMC") participants have assessed the appropriate level for the federal funds rate target to be between 2.0% and 2.5% by the end of 2018, increasing to between 2.75% and 3.25% by 2019 and c.3.25% to 3.75% by 2020.

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asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity.

For the purpose of this report, we have had regard to the observed betas (equity betas) of comparable companies as set out below:

| Company<br>Beta analysis | Country | Market Cap<br>$'million | Equity<br>Beta | R squared | Gearing<br>Ratio | Ungeared<br>Beta | Regeared<br>Beta |
|---|---|---|---|---|---|---|---|
| JustKapital Limited | Australia | 12 | 0.86 | 0.02 | 101.2% | 0.51 | 1.16 |
| Credit Corp Group Limited | Australia | 848 | 1.06 | 0.13 | 18.7% | 0.94 | 2.16 |
| Money3 Corporation Limited | Australia | 345 | 1.49 | 0.13 | 15.6% | 1.35 | 3.10 |
| Pioneer Credit Limited | Australia | 188 | 0.33 | 0.02 | 3.8% | 0.32 | 0.74 |
| Collection House Limited | Australia | 196 | 0.24 | 0.01 | 31.6% | 0.19 | 0.44 |
| **Average** | | | | | | | **1.52** |
| **Median** | | | | | | | **1.16** |

*Sources: S&P Global and GTCF calculations*
*Notes: 1. Equity betas are calculated using data provided by S&P Global. The betas are based on a two-year period with weekly observations and have been de-geared based on the average gearing ratio over five years;*

It should be noted that the above betas are drawn from the actual and observed historic relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for the pre-development assets, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected company are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparables, a process commonly referred as degearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (regearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the degearing and regearing exercise:

$$\beta_e = \beta_a\left[1 + \frac{D}{E} \times (1 - t)\right]$$

Where:

- βe = Equity beta
- βa = Asset beta
- t = corporate tax rate

The betas are de-geared using the average gearing level over the period in which the betas were observed and then re-geared using a gearing ratio of 65% debt to 35% equity (see Capital Structure Section below for further discussion)

For the purpose of our valuation, we have considered the mid-point of 1.34 between the median and the average of the betas and selected a beta range of between 1.30 and 1.40 to calculate the required rate of return on equity capital.

*Specific risk premium*

The specific risk premium represents the additional return an investor expects to receive to compensate for country, size and project related risk not reflected in the beta of observed comparable companies. We have applied different specific risk premia to JKL's Disbursement Funding business, JKL's Litigation Portfolio and NHF based on the following:

- JKL's Disbursement Funding business  is smaller and less diversified in comparison to the peers. JKL's Disbursement Funding business has carrying value of receivables of c.A$26 million whereas the average among the peers is around A$300 million.
- For the Litigation Portfolio, we have performed a high-level review and assessment of the associated risks relating the high level of gearing and the perceived operating and financial risk compared to the comparable listed companies.
- NHF's future growth is significantly contingent upon the availability of funds. In 2017, the company experienced a decline in revenue of 67% due to the funding constraint.
- NHF is exposed to the regulatory environment of the healthcare system in place in USA. As mentioned the in the Industry section 3.2, the health care industry is currently subject to intense scrutiny and uncertainty.
- NHF's underlying exposure is to the individual plaintiff whereas JKL's exposure is to the case. NHF is paid out of the proceeds from the case conclusion and if the case is lost, can seek recoupment from the individual. In the case of JKL, the law firm guarantees the full face value of the amount regardless of the outcome of the case.

Having regards of the above, we consider it not unreasonable to apply a specific risk premium between 3% and 4% for the JKL Disbursement Funding Business, and between 5% and 6% for both the Litigation Portfolio and NHF.

*Cost of debt*

For the purpose of estimating the cost of debt applicable to JKL's Disbursement Funding business, JKL's Litigation Funding Business and NHF, Grant Thornton Corporate Finance has considered the following:

- The margin in corporate bond yields over the US and Australian Government bond yields.
- The weighted average interest rate on credit outstanding for large businesses over the last one to five years as published by the Reserve Bank of Australia.
- The historical and current cost of debt for JKL and NHF and its comparable companies.
- Expectations of the yield curve.

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Based on the above, Grant Thornton Corporate Finance has adopted a cost of debt of 10.5% for the JKL Disbursement Funding business, 13.5% for the JKL Litigation Funding Business and 13.3% for NHF.

*Tax rate*

We have adopted a tax rate of 30%, which represents the tax rate included in the Financial Model.

*Discount rate summary*

| Discount rates | JKL Disbursement Funding | | JKL Litigation Portfolio | | NHF | |
|---|---|---|---|---|---|---|
| | High | Low | High | Low | High | Low |
| **Cost of equity** | | | | | | |
| Risk free rate | 4.0% | 4.0% | 2.5% | 2.5% | 3.5% | 3.5% |
| Beta | 1.30 | 1.40 | 1.30 | 1.40 | 1.30 | 1.40 |
| Market risk premium | 6.0% | 6.0% | 6.0% | 6.0% | 5.5% | 5.5% |
| Specific risk premium | 3.0% | 4.0% | 5.0% | 6.0% | 5.0% | 6.0% |
| **Cost of equity** | 14.8% | 16.4% | 15.3% | 16.9% | 15.7% | 17.2% |
| **Cost of equity (rounded to nearest 0.5%)** | **15.0%** | **16.5%** | **15.5%** | **17.0%** | **15.5%** | **17.0%** |
| | | | | | | |
| **Cost of debt** | | | | | | |
| Cost of debt (pre tax) | | | 13.5% | 13.5% | | |
| Tax | | | 30% | 30% | | |
| **Cost of debt (post tax)** | | | **9.5%** | **9.5%** | | |
| | | | | | | |
| **Capital structure** | | | | | | |
| Proportion of debt | | | 40% | 40% | | |
| Proportion of equity | | | 60% | 60% | | |
| **WACC (post tax)** | | | **13.0%** | **13.9%** | | |
| **WACC (post tax) (Rounded to nearest 0.5%)** | | | **13.0%** | **14.0%** | | |

*Source: GTCF analysis*

<u>JKL Disbursement Funding Business</u>

We have adopted a Cost of Equity of between 15.0% and 16.5% to value the JKL Disbursement Funding Business based on the calculated Cost of Equity for JKL Disbursement Funding Business.

<u>NHF Medical Lien Purchasing Business</u>

We have adopted a Cost of Equity of between 15.5% and 17.0% to value NHF based on the calculated Cost of Equity for NHF.

<u>JKL Litigation Funding Business</u>

We have adopted a WACC of between 13.0% and 14.0% to value the JKL Litigation Funding Business based on the calculated WACC for JKL's Litigation Funding Business.

<u>Tax losses</u>

We have adopted a Cost of Equity of between 15.0% and 16.5% to value the Tax Losses based on the calculated Cost of Equity for JKL's Disbursement Funding Business.

<u>Founder's Incentive Payments</u>

We have adopted a WACC of between 13.0% and 13.5% to value the NHF Founders' Incentive Payment based on the calculated WACC for NHF.

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## Appendix C - Comparable companies

| Company | Description |
|---|---|
| Credit Corp Group Limited | Credit Corp Group Limited provides debt purchase and collection, and consumer lending services. It operates two segments, Debt Ledger Purchasing and Consumer Lending. The Debt Ledger Purchasing segment purchases consumer debts from Australian and New Zealand banks, financial services utility, and telecommunication companies. The Consumer Lending segment provides various financial products to credit-impaired consumers. The company's products include Wallet Wizard, an online application to apply loans; CarStart Finance, which offers financial services to purchase and finance a car; ClearCash, a lending application; Credit 2U, a car finance broker, which provides a range of solutions, including leases and personal loans; and Trove Capital that offers online business loans. Credit Corp Group Limited is headquartered in Sydney, Australia. |
| Money3 Corporation Limited | Money3 Corporation Limited, a finance company, provides secured and unsecured personal loans in Australia. The company offers small cash and personal loans, and car loans and vehicle finance services, as well as cheque cashing services. Its vehicle loans include loans for cars, bikes, boats, trucks, tractors, and various vehicle repairs. The company provides loans through brokers and branches, as well as online. It operates 53 branches in Victoria, New South Wales, South Australia, Queensland, and Tasmania. The company is headquartered in Bundoora, Australia. |
| Pioneer Credit Limited | Pioneer Credit Limited provides financial services in Australia. The company acquires and services unsecured retail debt portfolios. It is also involved in introducing brokered personal credit and loan products. The company is headquartered in Perth, Australia. |
| Collection House Limited | Collection House Limited provides debt collection and receivables management services in Australia and New Zealand. The company operates through Collection Services and Purchased Debt Ledgers segments. It offers debt collections services to clients in the Australasian financial services, insurance, public utility, credit, and government enterprise markets; and debt purchasing services for banking, finance, telecommunications, and energy sectors. The company also provides receivables management, repayment arrangement management, asset location recovery and sale, hardship, legal and insolvency, debt purchase, credit management training, finance brokerage, and business process outsourcing services. Collection House Limited was incorporated in 1992 and is headquartered in Newstead, Australia. |

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## *Appendix D – Transactions*

| Target Company | Description |
|---|---|
| Macquarie Medico Legal & Radiology | Macquarie Medico Legal & Radiology (MML) is a well-established private business and a market leader in the funding of medical reports associated with conducting motor vehicle accident and other personal injury cases. MML's business commenced in 2007 and has a well-seasoned and growing portfolio of funded disbursement claims. MML provides funding to legal firms conducting the case for an injured client. As of January 22, 2016, Macquarie Medico Legal & Radiology operates as a subsidiary of JustKapital Financing Pty Ltd. |
| Pepper Group Limited | Pepper Group Limited operates as a residential mortgage and consumer lender, and loan servicer in Australia, New Zealand, Ireland, the United Kingdom, Spain, South Korea, Hong Kong, and China. It offers a range of lending products, including residential mortgages, auto and equipment finance, point of sale finance, personal loans, and commercial loans and others. The company also provides loan servicing for its own-originated loans, as well as for third party originated loans, including residential mortgages, consumer unsecured and secured loans, and commercial real estate loans. In addition, it offers real estate investment advisory services, including integrated property and capital solutions for corporations, investors, and developers; third party servicing and asset management services; and debt purchase, hardship management, collections process consultation/strategy review, annual file reviews, asset registration, and price analysis services. Pepper Group Limited was founded in 2000 and is based in North Sydney, Australia. As of December 4, 2017, Pepper Group Limited was taken private. |
| Fisher & Paykel Finance Limited | Fisher & Paykel Finance Limited, along with its subsidiaries, provides financial products and services for individuals, families, and businesses in New Zealand. It offers financial products, including credit cards for customers to acquire various household and commercial products from retail merchants and commercial dealers; and farmers finance cards. The company provides financing solutions for clients to acquire the plant, machinery, business equipment, and assets. It also offers insurance and product protection policies to retailers and consumers. The company was formerly known as Consumer Finance Corporation Ltd. and changed its name to Fisher & Paykel Finance Limited in 1991. The company was founded in 1973 and is based in Auckland, New Zealand. As of March 18, 2016, Fisher & Paykel Finance Limited operates as a subsidiary of FlexiGroup Limited. |
| Homeloans Limited (nka:Homeloans Limited, Prior To Reverse Merger With RESIMAC Limited) | As of October 25, 2016, Homeloans Limited was acquired by RESIMAC Limited, in a reverse merger transaction. Homeloans Limited engages in the mortgage origination and management of home loans in Australia. It operates through Origination and Management, and Securitisation of Mortgages segments. The company originates residential mortgages through external mortgage brokers, satellite offices, and internal consultants. It offers variable rate and fixed rate home, line of credit, lo doc home, self-managed super fund, bridging, specialty, and split rate home loans, as well as non-genuine savings products. The company also provides home loans for refinancing and debt consolidating, and investors; and land and construction loans. In addition, it is involved in the securitization of mortgages through the residential mortgage trust, a special purpose vehicle used to issue residential mortgage backed securities. Further, the company offers various insurance policies comprising landlords, motor vehicle, and home and contents insurance policies. Homeloans Limited was founded in 1985 and is based in Sydney, Australia. |
| IstCash Pty Ltd | Trade and Debtor finance division of the Thorn Group Limited. Thorn Group Limited, together with its subsidiaries, provides a range of financial solutions to consumers and businesses in Australia. It is involved in the leasing of household products to consumers; and provision of leasing and other financial services to small and medium size enterprises under the Radio Rentals name. The company also engages in the provision of loans, commercial finance, and receivables management services. Thorn Group Limited was founded in 1937 and is based in Chullora, Australia. |

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## *Appendix E – Rights issue Scenario*

Fairness assessment – Warrants Not Exercised Scenario

| Fairness assessment - Warrants Not Exercised Scenario<br>Australian cents per share | *Section Reference* | 0% take up of Rights Issue | | 50% take up of Rights Issue | | 100% take up of Rights Issue | |
|---|---|---|---|---|---|---|---|
| | | Low | High | Low | High | Low | High |
| JKL Shares before the Proposed Transaction (control basis) | *8.1* | 7.98 | 12.22 | 7.98 | 12.22 | 7.98 | 12.22 |
| Merged Entity Shares after the Proposed Transaction (minority basis) | *9.1* | 9.29 | 11.57 | 9.17 | 11.27 | 9.08 | 11.01 |
| Premium / (discount) | | 1.32 | (0.65) | 1.20 | (0.95) | 1.11 | (1.20) |
| Premium / (discount) (%) | | 16.5% | (5.3%) | 15.0% | (7.8%) | 13.9% | (9.9%) |
| **FAIRNESS ASSESSMENT** | | **FAIR** | | **FAIR** | | **FAIR** | |

*Source: GTCF analysis*

Fairness assessment – Warrants Exercised Scenario

| Fairness assessment - Warrants Exercised Scenario<br>Australian cents per share | *Section Reference* | 0% take up of Rights Issue | | 50% take up of Rights Issue | | 100% take up of Rights Issue | |
|---|---|---|---|---|---|---|---|
| | | Low | High | Low | High | Low | High |
| JKL Shares before the Proposed Transaction (control basis) | *8.1* | 7.98 | 12.22 | 7.98 | 12.22 | 7.98 | 12.22 |
| Merged Entity Shares after the Proposed Transaction (minority basis) | *9.1* | 12.34 | 14.15 | 12.04 | 13.72 | 11.77 | 13.35 |
| Premium / (discount) | | 4.36 | 1.93 | 4.06 | 1.51 | 3.80 | 1.13 |
| Premium / (discount) (%) | | 54.7% | 15.8% | 50.9% | 12.3% | 47.6% | 9.3% |
| **FAIRNESS ASSESSMENT** | | **FAIR** | | **FAIR** | | **FAIR** | |

*Source: GTCF analysis*

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## *Appendix F - Glossary*

| | |
|---|---|
| A$ | Australian Dollar |
| ABS | Australian Bureau of Statistics |
| ACA | Affordable Care Act |
| APES | Accounting Professional and Ethical Standards |
| APES110 | Code of ethics for Professional Accounting |
| ASIC | Australian Securities and Investments Commission |
| Assetsecure Facility | Revolving debt facility with a limit of A$35 million provided by Assetsecure Pty Limited to JKL |
| ASX | Australian Securities Exchange |
| Atalaya | Atalaya Special Opportunities Fund VI LP |
| Atalaya Debt Facility | Debt facility of US$80 million provided to NHF by Atalaya |
| Banyan | Banyan Finance |
| Canyon | Canyon MB Holdings |
| CAPM | Capital Asset Pricing Model |
| CHL | Collection House Limited |
| Convertible Bonds | Convertible bonds issued by JKL to Lucerne and other sophisticated investors with a face value of A$5 million with a maturity date on 15 January 2019 |
| Corporations Act | Corporations Act 2001 (Cth) |
| Credit Corp | Credit Corp Group Limited |
| CTP | Comprehensive Third Party scheme |
| CY | Calendar year ending 31 December |
| Day 1 Margin | The difference between the fair value and the transaction price of a disbursement |
| DCF | Discounted Cash Flow |
| DCF Method | Discounted cash flow method and the estimated realisable value of any surplus assets |
| Deal Structure Exchange Rate | A$:US$ exchange rate of 0.77 based on the exchange rate agreed as part of the deal structure. This is the rate used in the Pro-forma financials |
| Disbursements | Funding solutions for third-party costs |
| Escrow Deed | The NHF Founders have agreed to enter into escrow deeds to restrict the sale of the shares allotted to them as part of the Proposed Transaction until 31 December 2021 |
| EV | Enterprise Value |
| Exchange Rate | A$1 equivalent to US$0.77 |
| Five Fortress Cases | Five cases of the Litigation portfolio part of the funding arrangement between JKL and Fortress |
| FME Method | Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets |
| FOMC | Federal Open Market Committee |
| Fortress | FCCD (Australia) Pty Limited |
| Fortress Facility | A facility agreement between JKL and Fortress and its associates to fund JKL's future funding obligations for 5 cases within the Litigation Portfolio |
| FPF | Fisher & Paykel Finance Limited |

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| | |
|---|---|
| FPL | Federal poverty level |
| FSG | Financial Services Guide |
| FY | Finacial year ending 30 June |
| GAAP | Generally Accepted Accounting Principle |
| Grant Thornton Corporate Finance | Grant Thornton Corporate Finance Pty Ltd |
| HDHP | High deductible health plans |
| IER or Report | Independent Expert Report |
| Injury | Injury Care Solutions |
| JKL Convertible Bonds | Convertible Bonds issued to Lucerne and other sophisticated investors with a face value of A$5 million in July 2016 and maturing 15 January 2019 |
| JKL Model | Management Projections contained in the internal Management model, which contains projections for both JKL on a stand alone basis and for the Merged Entity |
| JKL or the Company | Just Kapital Limited |
| JKL Projections | Cash flows projections prepared by Management of JKL until 31 December 2023 |
| JKL Shareholders | The shareholders of JKL |
| Key Health | Key Health Medical Solutions |
| Litigation Funding Business | JKL's Litigation Funding Business also referred to as the Litigation Portfolio |
| Litigation Portfolio | 11 litigation cases JKL has funded, of which three have settled and eight are ongoing at the date of this report |
| Longford | Longford Capital Management LP |
| Lucerne | Lucerne Finance Pty Limited |
| Marrick | Marrick Medical Finance |
| Medfin | Medfin Manager |
| Merged Entity Core Business | JKL Core business combined with the NHF medical lien purchasing business |
| Merged Entity or LawFinance | The combined entity of JKL and NHF |
| MML | Macquarie Medico Legal & Radiology |
| Money3 | Money3 Corporation Limited |
| MVA | Motor vehicle accident |
| NAV Method | Amount available for distribution to security holders on an orderly realisation of assets |
| NHF | National Health Finance |
| NHF Founders Warrants | 122.9 million warrants with an exercise price of A$0.14 per warrant and an expiry date of 4 years after the issue provided to the NHF Founders as consideration for the NHF Founders Loan |
| NHF Founders | David Wattel and Mark Siegel |
| NHF Founders Incentive Payment | Under the terms of the employment contracts, the NHF Founders are entitled to receive an incentive payment of up to US$8.3 million or circa A$11.0 million (50/50 split) paid in equal instalments over five quarters |
| NHF Founders Loan | A vendor loan from NHF Founders totalling A$17.2 million |
| NHF Founders Notes | US$10 million promissory notes issued to the NHF Founders |
| NHF Projections | The NHF cash flows projections until 31 December 2023 |
| NOM | Notice of Meeting |

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| | |
|---|---|
| OOP | Out of pocket expenses |
| Partner Provider | Influential and leading physicians or other third party providers in each state who have the contacts and relationships to connect businesses to NHF |
| PCP | Pitt Capital Partners Limited |
| PDL | Purchased debt ledger |
| PDP | Purchased debt portfolio |
| Pioneer | Pioneer Credit Limited |
| Placement | A placement of 93,750,000 new fully paid ordinary shares at A$0.08 per share to raise A$7.5 million before costs |
| Presidio | Presidio Investors LLC |
| Presidio Investors | Presidio Investors NHF and Presidio Investors NHF 2, LP |
| Proposed Transaction | Two revised agreements to implement the acquisition of 100% of the issued capital of NHF for a total purchase price of US$53.0 million equivalent to A$68.8 million based on the Exchange Rate. |
| Quoted Security Price Method | Quoted price for listed securities, when there is a liquid and active market |
| Receivables Multiple | FME method based on a carrying value of receivables multiple capitalisation approach |
| RG | Regulatory Guide |
| RG 111 | ASIC Regulatory Guide 111 “Contents of expert reports” |
| RG 112 | ASIC Regulatory Guide 112 “Independence of Experts” |
| RG 74 | ASIC Regulatory Guide 74 “Acquisitions agreed to by shareholders” |
| Rights Issue | A non-renounceable, 1:1 pro-rata rights issue of up to 147,933,598 new fully paid ordinary shares at A$0.08 per share to raise up to A$11.8 million before costs |
| ROA | Return on assets |
| ROE | Return on equity |
| ROIC | Return on invested capital |
| SME Law Firms | Small and medium-sized law firms, personal injury law firms, commercial litigation firms, and family law firms |
| SOP | Sum of the parts approach |
| STL | Short-term lending |
| Syndicated Acquisition Facility | A senior debt facility totalling A$42 million bearing an interest rate of 13.0% per annum with a maturity of four years |
| Syndicated Acquisition Facility Warrants | 299.9 million warrants issued to the providers of the Syndicated Acquisition Facility as establishment fee with an exercise price of A$0.14 and a maturity of four years |
| Trust | Litigation Finance Trust |
| Trust Transaction | In December 2017, JKL entered into a transaction to transfer its Litigation Portfolio into a trust to be managed by an entity associated to Mr. Philip Kapp, the former Chairman and Managing Director of JKL. The Trust Transaction was aborted in March 2018 |
| Valuation Date Exchange Rate | A$:US$ exchange rate of 0.75, which is the 2 month average rate as at 25 July 2018. |
| VWAP | Volume Weighted Average Price |
| WACC | Weighted Average Cost of Capital |
| Warrants | 452.7 million new warrants issued as part of the Proposed Transaction |
| Warrants Exercised Scenario | Valuation scenario in which we have assumed that the warrant holders will not exercise the Warrants, and accordingly we have valued the Warrants using the binomial option pricing model |

| | |
|---|---|
| Warrants Not Exercised Scenario | Valuation scenario considering that the 452.7 million new warrants issued as part of the Proposed Transaction ("Warrants") will not be exercised by the holders. |
| WHSP | Washington H. Soul Pattinson and Company Limited |
| Working Capital Facility | A$3 million debt facility provided by Lucerne to JKL |