

1. Company details

Name of entity:	LawFinance Limited (formerly JustKapital Limited)
ABN:	72 088 749 008
Reporting period:	For the period ended 31 December 2018
Previous period:	For the year ended 30 June 2018

2. Results for announcement to the market

The Group changed its financial year from 30 June to 31 December in order to synchronise its financial year with that of its US subsidiaries. The financial statements have been prepared for the 6 months ended 31 December 2018. The comparative accounting period is for the 12 months ended 30 June 2018, therefore the results are not directly comparable.

During the period, the Group changed the currency in which it presents its financial statements from Australian dollars to US dollars, in order to better reflect the underlying performance of the Group.

			US\$'000
Revenues from ordinary activities	down	50% to	2,341
Loss from ordinary activities after tax attributable to the owners of LawFinance Limited	up	>100% to	(11,227)
Loss for the period attributable to the owners of LawFinance Limited	up	>100% to	(13,831)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the Group after providing for income tax amounted to \$11,427,000 (30 June 2018: \$5,142,000).

Due to the change in year end from June to December, and the timing of the acquisition of National Health Finance Holdco, LLC and its various subsidiaries ("NHF"), this report, for the year to 31 December 2018, only includes a six-month contribution from our Australian operations and a three-month contribution from NHF.

The loss in the period includes expenses totalling \$5,768,000 (pre tax adjustments) incurred in relation to the purchase of NHF. Due to the application of the accounting standards (in particular, *AASB 9 – Financial Instruments*), NHF contributed a loss of \$2,865,000 (pre tax adjustments) in the period. In addition, expenses totalling \$3,690,000 (pre tax adjustments) were incurred in relation to write-downs in the carrying value of the litigation funding assets.

Due to these one-off costs and the operation of the accounting standards which defers revenue recognition the Group's loss is not an accurate reflection of its expected future performance. The Group's Statement of Financial Position (Balance Sheet) provides a closer indication of our on-going operations, with the Net Receivables totalling \$99,321,000 representing cash to be collected over the next three years. In addition, there is an estimated \$4,474,000 which has been classified as "unrecognised day 1 margin" and \$21,714,000 which has been classified as "fair value" under *AASB 9 – Financial Instruments*. Both of these items represent future profit to be recognised in the profit and loss account and reflects additional cash expected to be collected from the receivables. The Group's exit from the litigation funding business should be completed within the next 12 to 18 months as the cases that are currently funded are completed.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(6.72)	(4.30)

4. Control gained over entities

Name of entity over which control was gained	Date of effective control
National Health Finance HoldCo, LLC and its various subsidiaries	1 October 2018

5. Loss of control over entities

During the period the following entities were placed into members voluntary liquidation as they did not trade:

Company name	ACN	Country of incorporation	Date of members voluntary liquidation
JustKapital Litigation Partners (NZ) Limited	N/A	New Zealand	21 September 2019
JustKapital No 1 Pty Limited	168 198 472	Australia	21 September 2019
LongKapital Pty Limited	606 427 374	Australia	21 September 2019
MML Services Pty Limited	609 165 817	Australia	21 September 2019

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

The Group has a joint operation with Longford Capital Management LP ('Longford Capital') where the Group co-invests with Longford Capital in litigation funding. The joint operation is funding one case in the United States on a 50:50 basis. The Group is entitled to its proportionate share of the Litigation Contracts in progress income received and bears a proportionate share of the joint operations' investment in cases. The total investment by the Group in the joint operation at 31 December 2018 was US\$1,166,000 (30 June 2018: US\$1,221,000). Longford Capital and the Group have also co-funded six cases in Australia on a 50:50 basis, with four of these cases being completed. The total investment by the Group in all co-funded cases in Australia as at 31 December 2018 was US\$2,568,000 (30 June 2018: US\$5,107,000).

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

All foreign entities are presented in compliance with International Financial Reporting Standards (IFRS).

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements are in the process of being audited. As at the date of this report there have not been any disputes or issues raised that will be subject to audit qualification.

11. Attachments

Details of attachments (if any):

The Preliminary Financial Report of LawFinance Limited for the period ended 31 December 2018 is attached.

12. Signed

Signed 

Date: 28 February 2019

Tim Storey
Chairman
Sydney

LawFinance Limited
(formerly JustKapital Limited)

ABN 72 088 749 008

Preliminary Financial Report - 31 December 2018

LawFinance Limited (formerly JustKapital Limited)
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LawFinance Limited (formerly JustKapital Limited)
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2018

		Consolidated	
		6 months	12 months
		31 December	30 June
		2018	2018
	Note	US\$'000	US\$'000
Revenue			
Net income from disbursement funding/medical liens		2,149	4,017
Other revenue	4	192	441
Total revenue		2,341	4,458
Non-supplier related cost of sales		(278)	(174)
Gross margin		2,063	4,284
Other income	5	1,744	1,460
Foreign exchange gain		590	-
Expenses			
Employee benefits expense	6	(1,727)	(2,018)
Depreciation and amortisation expense	6	(82)	(78)
Impairment of assets		(2,765)	(808)
Administration and other expenses	6	(2,553)	(1,630)
Business purchase/selling expenses	6	(5,768)	(2,804)
Finance costs	6	(5,333)	(4,015)
Loss before income tax benefit		(13,831)	(5,609)
Income tax benefit		2,404	467
Loss after income tax benefit from continuing operations		(11,427)	(5,142)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		559	(152)
Other comprehensive income/(loss) for the period, net of tax		559	(152)
Total comprehensive loss for the period		(10,868)	(5,294)
Loss attributable to:			
Parent entity		(11,227)	(5,142)
Non-controlling interest		(200)	-
		(11,427)	(5,142)
Total comprehensive loss attributable to:			
Parent entity		(10,668)	(5,294)
Non-controlling interest		(200)	-
		(10,868)	(5,294)
		Cents	Cents
Basic loss per share	7	(4.56)	(3.69)
Diluted loss per share	7	(4.56)	(3.69)

All amounts presented in respect of prior years have been restated to reflect the change in presentation currency as explained in the accounting policies.

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

LawFinance Limited (formerly JustKapital Limited)
Statement of financial position
As at 31 December 2018

		31 December 2018 US\$'000	Consolidated 30 June 2018 US\$'000	1 July 2017 US\$'000
	Note			
Assets				
Current assets				
Cash and cash equivalents		3,696	934	5,867
Loan and other receivables	8	29,883	8,959	6,245
Prepayments		67	82	161
Total current assets		33,646	9,975	12,273
Non-current assets				
Loan and other receivables	9	69,438	12,645	12,606
Investment held in joint operations		1,166	1,221	1,243
Property, plant and equipment		198	105	165
Goodwill	10	42,452	4,392	4,571
Other intangibles	11	6,871	10,999	6,733
Deferred tax		6,789	4,630	4,354
Total non-current assets		126,914	33,992	29,672
Total assets		160,560	43,967	41,945
Liabilities				
Current liabilities				
Trade and other payables		11,649	3,192	2,656
Borrowings	12	19,602	4,744	7,230
Employee benefits		215	97	463
Deferred consideration		-	370	385
Total current liabilities		31,466	8,403	10,734
Non-current liabilities				
Borrowings	13	111,120	30,929	23,371
Total non-current liabilities		111,120	30,929	23,371
Total liabilities		142,586	39,332	34,105
Net assets		17,974	4,635	7,840
Equity				
Issued capital	14	37,649	18,421	16,555
Reserves		5,998	1,184	1,113
Accumulated losses		(26,197)	(14,970)	(9,828)
Equity attributable to the owners of LawFinance Limited		17,450	4,635	7,840
Non-controlling interest		524	-	-
Total equity		17,974	4,635	7,840

All amounts presented in respect of prior years have been restated to reflect the change in presentation currency as explained in the accounting policies.

The above statement of financial position should be read in conjunction with the accompanying notes

LawFinance Limited (formerly JustKapital Limited)
Statement of changes in equity
As at 31 December 2018

Consolidated	Issued capital US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Foreign currency translation reserve US\$'000	Non-controlling interest US\$'000	Total equity US\$'000
Balance at 1 July 2017	16,555	1,518	(9,828)	(405)	-	7,840
Loss after income tax benefit for the period	-	-	(5,142)	-	-	(5,142)
Other comprehensive loss for the period, net of tax	-	-	-	(152)	-	(152)
Total comprehensive income/(loss) for the period	-	-	(5,142)	(152)	-	(5,294)
<i>Transactions with owners in their capacity as owners:</i> Contributions of equity, net of transaction costs (note 14)	1,866	-	-	-	-	1,866
Share-based payments	-	223	-	-	-	223
Balance at 30 June 2018	18,421	1,741	(14,970)	(557)	-	4,635
Consolidated	Issued capital US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Foreign currency translation reserve US\$'000	Non-controlling interest US\$'000	Total equity US\$'000
Balance at 1 July 2018	18,421	1,741	(14,970)	(557)	-	4,635
Loss after income tax benefit for the period	-	-	(11,227)	-	(200)	(11,427)
Other comprehensive income for the period, net of tax	-	-	-	559	-	559
Total comprehensive income/(loss) for the period	-	-	(11,227)	559	(200)	(10,868)
<i>Transactions with owners in their capacity as owners:</i> Contributions of equity, net of transaction costs (note 14)	19,228	-	-	-	903	20,131
Distributions to NCI	-	-	-	-	(179)	(179)
Share-based payments	-	4,255	-	-	-	4,255
Balance at 31 December 2018	37,649	5,996	(26,197)	2	524	17,974

The above statement of financial position should be read in conjunction with the accompanying notes

LawFinance Limited (formerly JustKapital Limited)
Statement of cash flows
For the period ended 31 December 2018

		Consolidated	
		6 months	12 months
		31 December	30 June
		2018	2018
		US\$'000	US\$'000
	Note		
Cash flows from operating activities			
Cash collections from customers (inclusive of GST)		10,674	9,537
Payments to suppliers and employees		(4,632)	(6,369)
Interest received		72	237
		<u>6,114</u>	<u>3,405</u>
Net cash from operating activities			
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	17	(32,601)	-
Payments for property, plant and equipment		(158)	(21)
Payments for joint venture capital invested		-	(26)
Receipts/(Payments) for other intangibles (net of co-funders contributions)	11	901	(4,916)
Net proceeds from realisation of investments (case settlements)		1,348	2,105
Payments for disbursement reports and medical liens		(9,600)	(9,321)
Loans from other entities		30,546	-
		<u>(9,564)</u>	<u>(12,179)</u>
Net cash (used in) investing activities			
Cash flows from financing activities			
Proceeds from issue of shares	14	5,093	1,910
Share issue transaction costs		(55)	(147)
Proceeds from borrowings - disbursement funding division		5,919	10,662
Proceeds from borrowings - medical lien division		4,911	-
Proceeds from borrowings - corporate		438	3,181
Repayment of borrowings - disbursement funding division		(3,840)	(7,677)
Repayment of borrowings - medical lien division		(4,697)	-
Repayment of borrowings - corporate		(1,988)	(35)
Interest and fees related to loans and borrowings		(4,953)	(3,717)
		<u>828</u>	<u>4,177</u>
Net cash from financing activities			
Net decrease in cash and cash equivalents		(2,622)	(4,597)
Cash and cash equivalents at the beginning of the financial period		934	5,867
Effects of exchange rate changes on cash and cash equivalents		5,384	(336)
		<u>3,696</u>	<u>934</u>
Cash and cash equivalents at the end of the financial period			

All amounts presented in respect of prior years have been restated to reflect the change in presentation currency as explained in the accounting policies.

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial statements cover LawFinance Limited (formerly JustKapital Limited) as a Group consisting of LawFinance Limited ('Company' or 'parent entity') and the entities it controlled ('the Group') at the end of, or during, the period.

The Group changed its financial year end from 30 June to 31 December in order to synchronise its financial year with that of its US subsidiaries. The financial statements have been prepared for the 6 months ended 31 December 2018. The comparative accounting period is for the 12 months ended 30 June 2018, therefore the results are not directly comparable.

LawFinance Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 16
56 Pitt Street
Sydney NSW 2000

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Presentation currency

During the period, the Group changed the currency in which it presents its financial statements from Australian dollars to US dollars, in order to better reflect that the majority of the Group's revenues and operating expenses expected to be denominated in US dollars.

A change in presentation currency is a change in accounting policy which is accounted for retrospectively. Statutory financial information included in the Group's Annual Report for the year ended 30 June 2018 previously reported in Australian dollars has been restated into US dollars using the procedures outlined below:

- assets and liabilities denominated in non-US dollar currencies were translated into US dollars at the closing rates of exchange on the relevant statement of financial position date (31 December 2018: \$0.7058, 30 June 2018: \$0.7391);
- non-US dollar income and expenditure were translated at the monthly average rates of exchange prevailing for the relevant period; and
- issued capital was translated at historic rates.

Foreign currency translation

The financial statements are presented in United States dollars, which is LawFinance Limited's presentation currency. LawFinance Limited's functional currency is now also US dollars.

Foreign currency transactions

Foreign currency transactions are translated into United States 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into United States dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into United States dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Comparatives

Comparatives have been realigned where necessary, to agree with current year presentation.

Note 3. Operating segments

Identification of reportable operating segments

Since the purchase of National Health Finance Holdco, LLC and its subsidiaries, the Group has been organised into three operating segments: (i) JustKapital Finance, comprising the Australian disbursement funding business, (ii) National Health Finance, comprising the US medical lien business and (iii) all other operations including litigation funding and head office costs.

Prior to this, the Group was organised into two operating segments: (i) JustKapital Finance, comprising disbursement funding and short-term funding and (ii) litigation funding, insurance and head office.

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Operating segment information

	JustKapital Finance US\$'000	National Health Finance US\$'000	Other US\$'000	Total US\$'000
Consolidated - 31 December 2018				
Revenue				
Net income from disbursement funding/medical liens	2,008	141	-	2,149
Other revenue	94	-	98	192
Total revenue	2,102	141	98	2,341
Other income	-	600	1,734	2,334
Total revenue	2,102	741	1,832	4,675
Segment result				
Depreciation and amortisation	1,185	(945)	(8,656)	(8,416)
Finance costs	(25)	(6)	(51)	(82)
	(1,064)	(1,914)	(2,355)	(5,333)
Loss before income tax benefit	96	(2,865)	(11,062)	(13,831)
Income tax benefit				2,404
Loss after income tax benefit				(11,427)
Assets				
Segment assets	26,477	118,175	15,908	160,560
Total assets				160,560
Liabilities				
Segment liabilities	21,253	61,158	60,175	142,586
Total liabilities				142,586

Note 3. Operating segments (continued)

	JustKapital Finance US\$'000	Litigation funding, insurance and head office US\$'000	Total US\$'000
Consolidated - 30 June 2018			
Revenue			
Net income from disbursement funding	4,017	-	4,017
Other revenue	394	47	441
Total revenue	4,411	47	4,458
Other income	1	1,459	1,460
Total revenue	4,412	1,506	5,918
Segment result	2,857	(4,373)	(1,516)
Depreciation and amortisation	(51)	(27)	(78)
Finance costs	(2,224)	(1,791)	(4,015)
Profit/(loss) before income tax benefit	582	(6,191)	(5,609)
Income tax benefit			467
Loss after income tax benefit			(5,142)
Assets			
Segment assets	26,132	17,835	43,967
Total assets			43,967
Liabilities			
Segment liabilities	20,857	18,475	39,332
Total liabilities			39,332

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Accordingly, all liabilities are allocated based on the operations of the segment.

	Revenue from external customers		Geographical non-current assets	
	31 December 2018 US\$'000	30 June 2018 US\$'000	31 December 2018 US\$'000	30 June 2018 US\$'000
Australia	2,200	4,458	12,279	16,717
United States	141	-	38,408	-
	2,341	4,458	50,687	16,717

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

Note 4. Other revenue

	Consolidated	
	6 months	12 months
	31 December	30 June
	2018	2018
	US\$'000	US\$'000
Interest received – short-term lending	94	394
Brokerage commission received – insurance	33	47
Rental income – office sub-lease	65	-
	<hr/>	<hr/>
Other revenue	192	441
	<hr/>	<hr/>

Note 5. Other income

	Consolidated	
	6 months	12 months
	31 December	30 June
	2018	2018
	US\$'000	US\$'000
Litigation contracts in progress – settlements and judgements	4,475	2,557
Litigation contracts in progress – expenses	(2,744)	(1,103)
Interest income	13	6
	<hr/>	<hr/>
Other income	1,744	1,460
	<hr/>	<hr/>

Note 6. Expenses

	Consolidated	
	6 months	12 months
	31 December	30 June
	2018	2018
	US\$'000	US\$'000
Loss before income tax includes the following specific expenses:		
<i>Employee benefits expense</i>		
Defined contribution superannuation expense	34	61
Share-based payments expense	27	223
Employee benefits expense excluding superannuation	1,666	1,734
	<u>1,727</u>	<u>2,018</u>
<i>Depreciation and amortisation</i>		
Depreciation	60	73
Amortisation	22	5
	<u>82</u>	<u>78</u>
<i>Administration and other expenses</i>		
ASIC, ASX and share registry fees	135	56
Insurance	98	46
Legal and professional fees	752	853
Write-off of acquisition costs of litigation assets	925	-
Rent and office costs	273	341
Travel and accommodation	119	103
Other	251	231
	<u>2,553</u>	<u>1,630</u>
<i>Finance costs and expenses</i>		
Interest expense and line fees	5,333	4,015
<i>Business purchase/selling expenses</i>		
Legal and professional fees	2,612	2,804
Warrant costs	3,156	-
	<u>5,768</u>	<u>2,804</u>

Note 7. Earnings per share

	Consolidated	
	6 months	12 months
	31 December	30 June
	2018	2018
	US\$'000	US\$'000
Loss after income tax attributable to the owners of LawFinance Limited	(11,227)	(5,142)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	246,301,947	139,611,768
Weighted average number of ordinary shares used in calculating diluted earnings per share	246,301,947	139,611,768

Note 7. Earnings per share (continued)

	Cents	Cents
Basic loss per share	(4.56)	(3.69)
Diluted loss per share	(4.56)	(3.69)

The Company's 1,500,000 options on issue (30 June 2018: 1,500,000), 50,000 convertible bonds (30 June 2018: 50,000) and 452,743,636 warrants (30 June 2018: nil) have been excluded from the diluted earnings calculations as they are anti-dilutive for the financial year.

Note 8. Current assets - loan and other receivables

	Consolidated 31 December 2018 US\$'000	30 June 2018 US\$'000
Loan receivables disbursement funding (gross)	56,707	10,920
Fair value movement	(27,264)	(2,281)
Unrecognised day 1 margin	(1,983)	(1,306)
	<u>27,460</u>	<u>7,333</u>
Other trade receivables	180	373
Short-term loans	488	888
	<u>668</u>	<u>1,261</u>
Other receivables	<u>1,755</u>	<u>365</u>
	<u>29,883</u>	<u>8,959</u>

Other receivables include amounts due to the Group from its joint venture partner for its share of investments made in co-funded cases.

Note 9. Non-current assets - loan and other receivables

	Consolidated 31 December 2018 US\$'000	30 June 2018 US\$'000
Loan receivable disbursement funding (gross)	148,541	18,646
Fair value movement	(76,612)	(3,894)
Unrecognised day 1 margin	(2,491)	(2,107)
	<u>69,438</u>	<u>12,645</u>

Note 10. Non-current assets - goodwill

	Consolidated 31 December 2018 US\$'000	30 June 2018 US\$'000
Goodwill – Australian disbursement funding business	4,194	4,392
Goodwill – US medical lien business	38,258	-
Goodwill	42,452	4,392

Goodwill – Australian disbursement funding business

Goodwill arose from the acquisition of the Macquarie Medico Legal business in 2016 and is allocated to the Australian operating division ('AOD'). The Group performed its annual impairment test at the reporting date. The Group considers the relationship between its market value, among other factors when assessing impairment. The recoverable amount of the Australian disbursement funding business has been determined based upon a value-in-use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections was 15% (30 June 2018: 14%) and cash flows beyond the five-year period are extrapolated using a 1% (30 June 2018: 1%) growth rate. It was concluded that the recoverable amount did not exceed its value-in-use.

Key assumptions used in value-in-use calculations and sensitivity to changes in assumptions

The calculation of value-in-use for the JustKapital Financing is most sensitive to the following assumptions:

- Discount rates; and
- Growth rate estimates.

Discount rates

Discount rates represent the current market assessment of the risks specific to the this business unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ('WACC'). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. A rise in the pre-tax discount rate to 20% (30 June 2018: 20%) would result in goodwill being impaired.

Growth rate estimates

Rates are based on management's estimates. Management recognises that the possibility of new entrants can have a significant impact on growth rate assumptions, however, given this is a relatively new industry, the effect of new entrants is not expected to have an adverse impact on the forecasts. A reduction to negative 4% (30 June 2018: negative 2%) in the long-term growth rate would result in goodwill being impaired.

Goodwill – US medical lien business

Goodwill arose from the acquisition of the National Health Finance business in 2018 and is allocated to the US operating division ('USOD'). The Group performed its annual impairment test at the reporting date. The Group considers the relationship between its market value, among other factors when assessing impairment. The recoverable amount of the US medical lien business has been determined based upon a value-in-use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections was 15% (30 June 2018: N/A) and cash flows beyond the five-year period are extrapolated using a 1% (30 June 2018: N/A) growth rate. It was concluded that the recoverable amount did not exceed its value-in-use.

Key assumptions used in value-in-use calculations and sensitivity to changes in assumptions

The calculation of value-in-use for the National Health Finance business is most sensitive to the following assumptions:

- Discount rates; and
- Growth rate estimates.

Note 10. Non-current assets - goodwill (continued)

Discount rates

Discount rates represent the current market assessment of the risks specific to the business unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ('WACC'). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. A rise in the pre-tax discount rate to 24% (30 June 2018: N/A) would result in goodwill being impaired.

Growth rate estimates

Rates are based on management's estimates. Management recognises that the possibility of new entrants can have a significant impact on growth rate assumptions, however, given this is a relatively new industry, the effect of new entrants is not expected to have an adverse impact on the forecasts.

Note 11. Non-current assets - other intangibles

	Consolidated	
	31 December 2018 US\$'000	30 June 2018 US\$'000
Website - at cost	17	13
Less: Accumulated amortisation	(10)	(8)
	<u>7</u>	<u>5</u>
Litigation contracts in progress - capitalised external costs	6,314	10,237
Litigation contracts in progress - capitalised internal costs	550	757
	<u>6,864</u>	<u>10,994</u>
	<u>6,871</u>	<u>10,999</u>

Note 11. Non-current assets - other intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below:

Consolidated	Website US\$'000	Litigation contracts in progress US\$'000	Total US\$'000
Balance at 1 July 2017	13	6,722	6,735
Additions	-	5,285	5,285
Disposals	-	(750)	(750)
Exchange differences	-	(263)	(263)
Amortisation expense	(8)	-	(8)
Balance at 30 June 2018	5	10,994	10,999
Additions	4	3,429	3,433
Disposals	-	(5,914)	(5,914)
Exchange differences	-	(1,645)	(1,645)
Amortisation expense	(2)	-	(2)
Balance at 31 December 2018	7	6,864	6,871

The recoverable amount of each Litigation contract in progress is determined based upon a value-in-use calculation using cash flow projections based upon financial budgets approved by management.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The following describes each key assumption on which management has based its cash flow projections when determining the value-in-use of Litigation contracts in progress:

- (i) The estimated cost to complete the Litigation contracts in progress is budgeted, based upon estimates provided by the external legal advisor in charge of the litigation;
- (ii) The value of the Litigation contracts in progress, once completed, is estimated based upon the expected settlement or judgement amount of the litigation and the fees due to the Group under the litigation funding contract; and
- (iii) The discount rate applied to the cash flow projections is based on the Group's WACC; and other factors relevant to the particular Litigation contract in progress. The discount rate applied was 13.5% (30 June 2018: 13.5%).

No impairment has been identified as a result of impairment testing performed. No significant change in the key assumptions would result in an impairment charge.

Note 12. Current liabilities - borrowings

	Consolidated 31 December 2018 US\$'000	30 June 2018 US\$'000
Vendor loan – Australian Disbursement Funding business	824	1,048
Convertible bonds payable	3,529	3,696
Lucerne Group combined loan	8,548	-
Lucerne Group facility	5,701	-
Other NHF subordinated debt	1,000	-
	19,602	4,744

Note 12. Current liabilities - borrowings (continued)

Vendor loan – Australian Disbursement Funding business

The loan due to the vendor of the Australian disbursement funding business was repayable on 22 January 2019. Interest is payable at 7.5% (30 June 2018: 7.5%) per annum. The Group has received verbal agreement to extend the facility to 30 June 2019 and is currently documenting that extension. The loan is unsecured. The Vendor may convert the outstanding loan amount to ordinary shares of the Company at a conversion price of AUD\$0.14 per share.

Convertible bonds payable

On 15 July 2016, the Company issued 50,000 convertible bonds, each with a face value of AUD\$100. The total consideration received from the convertible bonds was \$3,695,500 (AUD\$5,000,000). During the financial year, the bonds maturity date was extended to 29 November 2019. Interest payments are cumulative and payable at 11.5% per annum, quarterly in arrears. The bonds are convertible into ordinary shares of the Company at the option of the holder prior to their maturity. The holder can elect to convert prior to maturity date by providing notice only after the Company's next annual general meeting. The conversion price, if such an election is made, is AUD\$0.30 per ordinary share, or 80% of the issue price of any future equity issued should the issue price be lower than AUD\$0.30 per ordinary share. The Company undertook a capital raising in November 2018 at AUD\$0.08 per share. As a result of that capital raising the conversion price of the convertible bonds is now AUD\$0.064 per ordinary share.

The Company has a right to redeem the bonds earlier than their maturity date at a 10% premium to face value. With the agreement of the Company, the bond holders may partially or fully apply the redemption amount to subscribe for ordinary shares at a price that represents a 10% discount to a 5-day volume weighted average price ('VWAP') determined by the holder within the previous 90 days.

The convertible bonds are categorised as a liability in the statement of financial position due to the terms of the anti-dilution clauses. Due to the conversion feature the convertible bonds are considered to include a derivative liability. As such the convertible bonds are considered to represent a liability with an equity conversion option derivative with the entire instrument being accounted for at fair value through profit or loss.

The facility is subject to a number of covenants. A breach of a covenant may require the Group to repay the bond earlier. No covenants have been breached as at 31 December 2018.

Lucerne Group combined loan

The Lucerne Finance Pty Limited short-term loan facility and the Lucerne Composite Master Fund loan facility were amalgamated during the year ended 30 June 2018 to become the Lucerne Group combined loan. The loan is repayable on 31 December 2019. On-going interest payable is 13.5% per annum (30 June 2018: 16.75% per annum (including establishment fees). The loan is unsecured. During the period the Lucerne Group assigned a portion of this loan to third parties on the same terms and conditions noted.

The facility is subject to a number of covenants. A breach of a covenant may require the Group to repay the loan earlier. No covenants have been breached as at 31 December 2018.

Lucerne Group facility

Lucerne Finance Pty Limited and the Principis Master Fund have jointly provided facilities totalling US\$5,701,000 to the medical lien business in the US as at 31 December 2018 (30 June 2018: \$N/A). The facilities are repayable on 28 September 2019. Interest is payable at 15% per annum with a step up to 19% per annum from 1 April 2019 should the loan remain outstanding at that time. The loan is unsecured.

Other NHF subordinated debt

A third party has provided a \$1,000,000 facility to NHF which remains payable as at 31 December 2018 (30 June 2018: \$N/A). The facilities are repayable on demand. Interest is payable at 12% per annum. The loan is unsecured.

Note 13. Non-current liabilities - borrowings

	Consolidated 31 December 2018 US\$'000	30 June 2018 US\$'000
Assetsecure Pty Limited loan	20,028	18,844
Atalaya Capital Management	39,902	-
NHF Founder Promissory Notes	9,000	12,085
Syndicated acquisition facility	29,644	-
Vendor loan - NHF Founders	12,546	-
	<hr/> 111,120	<hr/> 30,929

Assetsecure Pty Limited (Assetsecure)

The loan facility of \$24,703,000 (AUD\$35,000,000) ((30 June 2018: \$25,869,000) (AUD\$35,000,000)) is available to fund the Australian disbursement funding business operated by JustKapital Financing Pty Limited. It expires on 30 September 2020. This loan is classified as non-current in the current financial period. However, it is repayable on demand if loan covenants are breached and not rectified. Interest and management fees payable total 7.95% per annum on the drawn down amounts (30 June 2018: 7.95% per annum) and the undrawn line fees are 1.0%.

The facility is subject to a number of covenants. A breach of a covenants may require the Group to repay the loan earlier. No covenants have been breached as at 31 December 2018.

The loan is secured by a fixed and floating charge over the assets of JustKapital Financing Pty Limited. The parent entity and other entities within the Group have guaranteed the facility.

Atalaya Special Opportunities Fund VI LP (Atalaya)

The loan facility of \$80,000,000 (30 June 2018: \$N/A) is available to fund the US medical lien financing business. The facility is repayable on 25 April 2022. However, it is repayable on demand if loan covenants are breached and not rectified. The facility is secured by a first-ranking charge over the assets of NHF SPV I, LLC (being the company which owns the accounts receivables in the US). The interest and fees payable under the drawn down facility total 13.25% per annum and the undrawn line fees are 1.0%.

NHF Founder Promissory Notes

The NHF Founder Promissory Notes were \$9,000,000 (\$4,500,000 per founder) as at 31 December 2018 and are repayable on 16 January 2020. The loan is interest free and is unsecured.

Syndicated acquisition facility

The Syndicated acquisition facility of \$29,644,000 (AUD\$42,000,000) (30 June 2018: \$N/A) is provided by leading Australian institutions and family offices, including Washington H. Soul Pattinson & Company Limited. The facility is repayable on 28 September 2022 but may be repaid at any time after 28 September 2021. Interest payable under this facility is 13.0% per annum. The loan is secured over all of the assets of the Group, with second ranking security provided behind the assets secured to Assetsecure and Atalaya (noted above).

Vendor loan - NHF Founders

A vendor loan facility totalling \$12,546,000 (AUD\$17,200,000) (30 June 2018: \$N/A) was provided by the NHF Founders David Wattel and Mark Siegel. This facility is repayable on 28 September 2022 but may be repaid any time after 28 September 2021. Interest payable under this facility is 13% per annum. The loan is unsecured.

Note 13. Non-current liabilities - borrowings (continued)

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	31 December 2018 US\$'000	30 June 2018 US\$'000
Total facilities		
Assetsecure Pty Limited loan*	24,703	25,869
Atalaya Capital Management**	80,000	-
Lucerne Group combined loan	-	12,529
NHF founder promissory notes	9,000	-
Syndicated acquisition facility	29,644	-
Vendor loan - NHF Founders	12,546	-
	<u>155,893</u>	<u>38,398</u>
Used at the reporting date		
Assetsecure Pty Limited loan*	20,028	18,844
Atalaya Capital Management**	39,902	-
Lucerne Group combined loan	-	12,085
NHF founder promissory notes	9,000	-
Syndicated acquisition facility	29,644	-
Vendor loan - NHF Founders	12,546	-
	<u>111,120</u>	<u>30,929</u>
Unused at the reporting date		
Assetsecure Pty Limited loan*	4,675	7,025
Atalaya Capital Management**	40,098	-
Lucerne Group combined loan	-	444
NHF founder promissory notes	-	-
Syndicated acquisition facility	-	-
Vendor loan - NHF Founders	-	-
	<u>44,773</u>	<u>7,469</u>

* The facility can be drawn-down based upon various calculations relating to the underlying disbursement receivables. As at 31 December 2018, US\$20,863 could be drawn down as a result of these calculations (30 June 2018: US\$37,594).

** The facility can be drawn-down based upon various calculations relating to the underlying medical lien receivables. As at 31 December 2018, US\$238,530 could be drawn down as a result of these calculations (30 June 2018: US \$N/A).

Note 14. Equity - issued capital

	Consolidated			
	31 December 2018 Shares	30 June 2018 Shares	31 December 2018 US\$'000	30 June 2018 US\$'000
Ordinary shares - fully paid	<u>483,635,467</u>	<u>147,933,598</u>	<u>37,649</u>	<u>18,421</u>

Note 14. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	US\$'000
Balance	1 July 2017	125,813,124		16,555
Issue of shares	8 November 2017	18,871,969	US\$0.107	2,022
Issue of shares - performance rights	21 December 2017	3,248,505	US\$0.000	-
Share issue costs		-	US\$0.000	(156)
Balance	30 June 2018	147,933,598		18,421
Issue of shares - 1:1 rights issue	7 November 2018	24,514,797	US\$0.058	1,425
Issue of shares - founder shares - acquisition of NHF	7 November 2018	215,097,403	US\$0.058	12,500
Issue of shares - placement	7 November 2018	93,750,000	US\$0.058	5,448
Issue of shares - performance rights	7 November 2018	545,203	US\$0.000	-
Issue of shares - performance rights	21 November 2018	719,366	US\$0.000	-
Issue of shares - employee incentive plan	21 November 2018	475,000	US\$0.000	-
Issue of shares - rights issue shortfall	26 November 2018	600,000	US\$0.058	35
Issue of shares - cleansing prospectus	13 December 2018	100	US\$0.058	-
Share issue costs		-	US\$0.000	(180)
Balance	31 December 2018	483,635,467		37,649

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are 222,430,736 (30 June 2018: 8,764,493) ordinary shares escrowed at 31 December 2018.

Options

Options do not entitle the holder to participate in dividends or to vote at a meeting of the Company.

Performance rights

Performance rights do not entitle the holder to participate in dividends or to vote at a meeting of the Company.

Convertible bonds

Convertible bonds do not entitle the holder to participate in dividends or to vote at a meeting of the Company.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

Management controls the capital of the Group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital and financial liabilities, supported by financial assets.

The Group is not subject to any externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

Note 15. Fair value measurement

Fair value measurement hierarchy for assets

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 December 2018	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<i>Assets measured at fair value:</i>				
Loan receivables	-	-	101,373	101,373
Total assets	-	-	101,373	101,373

Consolidated - 30 June 2018	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<i>Assets measured at fair value:</i>				
Loan receivables	-	-	23,391	23,391
Total assets	-	-	23,391	23,391

The above Loan receivables are shown excluding the adjustment for the unrecognised day 1 margin. There were no transfers between levels during the financial period.

Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements of loan receivables categorised within Level 3 of the fair value hierarchy, performed by an actuarial firm as at 31 December 2018 and 30 June 2018 are as shown below.

The actuarial valuation involves:

- Analysis of historical collections data;
- Setting assumptions based on the experience of historical collections data (including repayment patterns, proportion of write-offs and discounts);
- Application of assumptions to the open receivables in order to project the future repayments over the expected life of the contracts;
- Discounting the projected repayments for the open receivables using an appropriate discount rate to the valuation date;
- Calculation of the fair value of the invoices taking into account the discounted repayments which have allowed for discounts and write-offs and credit risk; and
- Calculation of the day 1 margin and its systematic recognition within profit and loss over the expected term of the arrangement 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.

Loan receivables fair value measurement – valuation process

Valuations are performed on a half-yearly basis by an approved external actuarial firm. For the purpose of the valuation, Management provides the external actuarial firm with the inputs and data required to be applied in the valuations. Management performs a reconciliation of the fair value based on the valuation results and as part of the reconciliation process, discussions are conducted with the external actuarial firm if there are any unusual movements noted.

Note 15. Fair value measurement (continued)

Reconciliation of fair value measurement of the Loan receivables and deferred day 1 margin

Consolidated	Fair value US\$'000	Deferred day 1 margin US\$'000	Total US\$'000
Balance at 1 July 2017	19,125	(3,381)	15,744
Cash disbursements in relation to new loans	10,005	-	10,005
New day 1 margin	-	(3,065)	(3,065)
Cash collections - disbursement funding	(8,969)	-	(8,969)
Gains or losses recognised in profit or loss	4,164	-	4,164
Amortisation of day 1 margin	-	2,897	2,897
Exchange differences	(934)	136	(798)
Balance at 30 June 2018	23,391	(3,413)	19,978
Additions through business combinations (note 17)	76,003	-	76,003
Change in assumption	-	106	106
Cash disbursements in relation to new loans	9,445	-	9,445
New day 1 margin	-	(2,886)	(2,886)
Cash collections - disbursement funding	(10,378)	-	(10,378)
Gains or losses recognised in profit or loss	3,965	-	3,965
Amortisation of day 1 margin	-	1,573	1,573
Exchange rate movement	(1,053)	146	(907)
Balance at 31 December 2018	101,373	(4,474)	96,899

The loan receivables disbursement funding (gross) balance was US\$205,248,000 as at 31 December 2018 (30 June 2018: US\$29,566,000).

Note 16. Contingent liabilities

Bank guarantees

The Group has given bank guarantees as at 31 December 2018 of \$112,285 (30 June 2018: US\$116,613) to various landlords. The guarantees are secured by an offset arrangement with the short-term cash deposits.

Litigation funding agreements

In certain jurisdictions litigation funding agreements contain an undertaking from the Group that it will pay adverse costs awarded to the successful party in respect of costs incurred during the period of funding, should the client's litigation be unsuccessful. It is not possible to predict in which cases such an award might be made or the quantum of such awards. In general terms an award of adverse costs to a defendant will approximate 70% (30 June 2018: 70%) of the amount paid by the plaintiff to pursue the litigation (although in some cases there may be more than one defendant). Accordingly, an estimate of the total potential adverse costs exposure of the Group which has accumulated from time to time may be made by assuming all cases are lost, that adverse costs equal 70% (30 June 2018: 70%) of the amount spent by the plaintiff and that there is only one defendant per case.

At 31 December 2018 the total amount spent by the Group where undertakings to pay adverse costs have been provided was US\$5,750,000 (30 June 2018: US\$8,780,000). The potential adverse costs orders using the above methodology would amount to US\$3,883,000 (30 June 2018: US\$6,267,000). The Group does not currently expect that any of the matters will be unsuccessful. The Group has obtained adverse costs order insurance for these matters which should respond if any matter is unsuccessful and an adverse costs order is payable.

Note 16. Contingent liabilities (continued)

Earn-out - Litigation funding portfolio

The seller of the Litigation funding portfolio, which was acquired by the Group on 11 July 2016, is entitled to receive 50% of all proceeds over AUD\$4,000,000 from the "free carry" component of the litigation funding agreements. There is presently a dispute with the seller in relation to the calculation of the "free carry" entitlement generated by four case settlements in the portfolio (there is one on-going case from this portfolio). The seller of this portfolio claims that amounts are due to be paid by the Company under the "free carry" entitlement. The Company's position is that under the terms of the relevant agreements there is no amount payable.

Litigation commenced by former Executive Chairman

The former Executive Chairman of the Group has commenced proceedings against LawFinance Limited in relation to various aspects of his exit from the Group. The Company believes that his claims are un-meritorious and intends to vigorously defend those proceedings.

Note 17. Business combinations

On 28 September 2018, JustKapital NHF USA Holdings, LLC, a wholly owned subsidiary of LawFinance Limited, acquired 100% of the ordinary shares of National Health Finance HoldCo, LLC (NHF) for the total consideration transferred of US\$53,000,000. NHF is a US medical lien purchasing business with operations very similar to the Group's Australian disbursement funding business. The acquisition expanded the Group's financing business into the much larger US market. The goodwill paid on acquisition of US\$38,354,000 represents the strong brand associated with NHF, reflected in its large book of receivables (over 33,000) and a business model that facilitates strong working relationships with its network of attorneys and medical providers of over 3,000.

AASB 3 Business Combinations allows the acquirer a reasonable time to obtain the information necessary to identify and measure all the various components of the business combination as of acquisition date. As at the 31 December 2018 the acquisition accounting for the NHF acquisition remains provisional.

Note 17. Business combinations (continued)

Details of the acquisition are as follows:

	Fair value US\$'000
Cash and cash equivalents	5,081
Trade receivables	76,003
Other assets	337
Trade and other payables	(5,386)
Notes payables	(20,703)
Financing facility	(39,687)
Non-controlling interest	(903)
	<hr/>
Net assets acquired	14,742
Goodwill	38,258
	<hr/>
Acquisition-date fair value of the total consideration transferred	53,000
	<hr/>
Representing:	
Cash [paid or payable] to vendor	26,500
Shares of the Company issued to vendor	13,250
NHF vendor loan	13,250
	<hr/>
	53,000
	<hr/>
Acquisition costs expensed to profit or loss	5,768
	<hr/>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	53,000
Less: shares issued by Company as part of consideration	(13,250)
Less: NHF vendor loan	(13,250)
Exchange rate movement	498
	<hr/>
	26,998
	<hr/>
Pre-acquisition loan provided to NHF at acquisition	5,603
	<hr/>
Net cash used	32,601
	<hr/>