

**LawFinance Limited**  
**(formerly JustKapital Limited)**

**ABN 72 088 749 008**

**Annual Report for the six months ended 31 December 2018**

## LawFinance Limited (formerly JustKapital Limited)

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**LawFinance Limited (formerly JustKapital Limited)**

**Corporate directory**

**31 December 2018**

Directors	Tim Storey - Non-Executive Chairman Diane Jones - Chief Executive Officer, Executive Director Anthony Murphy - Non-Executive Director David Wattel - Executive Director
Company secretary	Dean Jagger
Registered office	Level 16 56 Pitt Street Sydney NSW 2000 Tel: +61 2 9696 0220 Fax: +61 2 9252 3430
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Tel: 1300 554 474 Fax: +61 2 9287 0303
Auditor	Stantons International Level 2 22 Pitt Street Sydney NSW 2000
Solicitors	Corrs Chambers Westgarth Level 17 8-12 Chifley Square Sydney NSW 2000
Stock exchange listing	LawFinance Limited shares are listed on the Australian Securities Exchange (ASX code: LAW)
Website	<a href="http://www.lawfinance.com.au">www.lawfinance.com.au</a>
Corporate Governance Statement	<p>The corporate governance statement which is approved at the same time as the Annual Report can be found at: <a href="http://www.lawfinance.com.au/investor-centre/governance/">http://www.lawfinance.com.au/investor-centre/governance/</a></p> <p>The directors support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability.</p>

Dear Shareholders

This has been a very demanding period for LawFinance Limited. We finalised the purchase of National Health Finance, Holdco, LLC and its subsidiaries ("NHF") on 28 September 2018, following approval by you, our shareholders, on 26 September 2018.

The purchase of NHF for US\$53M (plus acquisition costs) was funded by a mixture of new debt (US\$42M) which is repayable 4 years from now, and new equity (US\$18M). The transaction was supported by debt and equity from several well-known institutions and family offices including cornerstone funding from Washington H Soul Pattinson Limited and two of our major shareholders: EGP Capital and Lucerne Investment Partners.

NHF funds personal injury liens related to medical expenses incurred by an accident victim which are covered by the at fault and/or the victim's automobile insurer. The business is very similar to our disbursement funding operation in Australia, which also operates in the personal injury area.

We are now a much bigger Group with operations in Australia and the US. We expect our two books of debtors to collect approximately US\$123M over the next three or so years. The integration of the two organisations is well underway and we have developed strong working relationships across the Group.

There have been a number of key achievements that I wanted to highlight:

- The Australian disbursement funding business has US\$27M of Net Loan Receivables (or expected cash collections) as at 31 December 2018. This represents year on year growth of 21%.
- The Australian disbursement funding business achieved cash collections of US\$10M in CY2018, a 30% growth rate from CY2017.
- The US medical lien funding business has US\$96M of Net Loan Receivables (or expected cash collections) as at 31 December 2018.
- The US medical lien funding business generated cash collections of US\$6M for the three months to 31 December 2018.
- There have now been four case settlements in the litigation portfolio. The remaining 7 cases will be funded to their conclusion, which is expected over the next 12 to 18 months. The litigation portfolio is expected to generate further cash to the Group of over US\$16M in this period.

Although the above highlights are extremely positive, as a fellow shareholder, I am disappointed with the loss we have delivered in this period. There are no excuses for underperformance but there were a number of factors that contributed to this outcome. The Group incurred significant costs of US\$5.8M undertaking this transformation and a number of one-off expenses, including a US\$3.5M write-down of our litigation funding assets.

Due to the application of the accounting standards, the US operations contributed a loss during the one quarter of our ownership of US\$1.8M (as we were only able to record 9% of expected profit from the sales achieved in the quarter). We do not believe that this is a meaningful reflection of the operations value to LawFinance.

After a long journey completing this transaction we are very excited about the future. We have substantial cashflow; US dollar earnings; and a business that is cyclically resilient. I feel confident that the business is well placed to take advantage of the exciting opportunities that lie ahead.



Diane Jones  
Chief Executive Officer

## LawFinance Limited (formerly JustKapital Limited)

### Directors' report

31 December 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of LawFinance Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 December 2018.

### Directors

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

Tim Storey  
Anthony Murphy  
Diane Jones  
David Wattel (Appointed 26 September 2018)

### Nature of operations and principal activities

During the financial period the Group purchased National Health Finance Holdco, LLC and its subsidiaries ('NHF'). NHF operates a medical lien funding business in the United States. NHF purchases medical treatment receivables associated with a personal injury case (a car accident) from medical practitioners at a discount from the full value of the invoice. NHF's return is realised upon payment by the at-fault party or their insurance carrier. Due to its size, this business has now become the most significant component of the Group's operations.

The principal activities of the Group consisted of:

- Medical lien funding;
- Disbursement funding and short-term funding;
- Insurance broking for after the event insurance, which has now ceased operations; and
- Litigation funding, which is being wound down.

#### *Medical lien funding*

Established in 1999, the NHF business is an Arizona based medical lien funding 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 their 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 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.

#### *Disbursement funding and short-term funding*

The disbursement funding division and short-term funding division have been merged and are referred to as 'JustKapital Finance'.

JustKapital Finance provides finance to law firms to fund the legal disbursements required by lawyers to progress the claims of their clients which the client generally cannot fund themselves. The deferred payment structure offered by JustKapital Finance addresses the immediate and growing market requirement whereby the client or firm cannot, nor may not be willing to, fund disbursements directly. The Group does not fund the legal fees related to the case. The Group pays the disbursements directly, charges a standardised mark-up and immediately invoices the law firm once the disbursements are paid. The Group's invoice becomes payable upon completion of the underlying case, which on average is in about 18 months' time. Discounts may be provided from the invoiced cost if the case concludes quickly or in other exceptional circumstances. The key business driver of the disbursement funding business is to ensure that the law firm client progresses the case within normal parameters. In any given financial period, the profitability of the disbursement funding business is dependent upon revenue and discount levels. Legislative, regulatory, judicial and policy changes may have an impact on future profitability.

JustKapital Finance also provides short-term working capital finance to law firms for a duration of less than 12 months. There appears to be demand for this funding structure, which is otherwise unavailable to the law firm. The short-term facility is only provided to law firms who use JustKapital exclusively for their disbursement funding requirements (where the client of the law firm cannot pay their disbursements). The short-term funding division was established in July 2016 and has been tested successfully since its inception. The Group continues to assess whether there is a large market requirement for this product.

#### *Insurance broking*

This business line provides insurance broking services to place policies for Adverse Costs Order Insurance and Security for Costs Deeds, earning broker fees and commissions. This business line was established in September 2016. The key business driver of this business line is the negotiation with Insurers and the placement of Adverse Costs Order Insurance policies and Security for Costs Deeds for applicants. This operation has not developed as was anticipated and therefore the Board determined this division should be closed down during the period.

#### *Litigation funding*

During the 2018 financial year the Board resolved to exit the litigation funding division. The litigation funding division is capital intensive which created a strain on the Group's working capital resources. Therefore, the Board determined that the best use of the Group's limited resources was to invest in its profitable businesses.

The litigation funding division provided investigation and management services, as well as providing finance to claimants to progress their claim. These services and funding are provided pursuant to a contract with a claimant. The Group does not provide legal advice to any claimant. The key business driver is to manage and fund the litigation to a successful conclusion. If the litigation is successful, the Group earns a fee and will also be reimbursed the costs paid to progress the litigation, both of which are payable from the sums recovered in the litigation. The fee is generally a percentage of the settlement or judgement proceeds. If the litigation is unsuccessful, the Group does not generate any income. In certain jurisdictions, the litigation funding agreement contains an undertaking to the contracted parties that the Group will pay any adverse costs ordered in respect of the costs incurred by the defendant(s) during the period of funding.

Since its inception the has Group funded 11 cases. Four of these cases have been successfully concluded. The remaining 7 cases will continue to be funded until their conclusion.

#### **Dividends**

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

#### **Review of operations**

The loss for the Group for the six months ended 31 December 2018 after providing for income tax and non-controlling interest amounted to US\$11,227,000 (year ended 30 June 2018: US\$5,142,000). The contribution from the medical lien funding business included in this result was for the period 1 October 2018 to 31 December 2018, reflecting the Group's commencement of effective control.

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.

### **Significant changes in the state of affairs**

Effective 1 October 2018, the Company obtained control of the medical lien funding business in the United States. Following completion of this acquisition, the Group now operates in 5 states in Australia and 19 states in the United States, becoming an international operation. Prior to the acquisition, the Group was an Australian based business.

The acquisition was approved by shareholders at an extraordinary shareholders meeting held on 26 September 2018.

On 1 October 2018, the Company changed its name from JustKapital Limited to LawFinance Limited.

As noted in the last annual report, the litigation funding division has agreed not to fund any new cases and the existing cases are continuing to be funded to their completion.

During the period the Board decided to cease operating the insurance broking operations as this operation had not developed as was anticipated.

There were no other significant changes in the state of affairs of the Group during the financial period.

### **Matters subsequent to the end of the financial period**

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

### **Likely developments and expected results of operations**

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

### **Environmental regulation**

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

### **Information on directors**

Name:	Tim Storey
Title:	Non-Executive Chairman, Non-Executive Director
Experience and expertise:	Tim holds a number of directorships in various private and public companies. He is a barrister and solicitor and was a partner at one of New Zealand's premier law firms through to 2006 and has practised in both Australia and New Zealand, focusing on corporate, commercial and property transactions. He is a member of the Institute of Directors (NZ) and the Financial Services Institute of Australasia.
Other current directorships:	Chairman of Stride Property Group (NZX: SPG) and Director of Investore Property Limited (NZX: IPL).
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Remuneration Committee and Chairman of the Audit and Risk Committee
Interests in shares:	6,603,014 ordinary shares
Interests in options/warrants:	Nil options/warrants over ordinary shares
Interests in rights:	Nil performance rights over ordinary shares

## LawFinance Limited (formerly JustKapital Limited)

### Directors' report

31 December 2018

Name: Anthony Murphy  
Title: Non-Executive Director  
Experience and expertise: Anthony is the Chief Executive Officer of Lucerne Investment Partners and is responsible for overseeing and leading both Group strategy and ongoing management at Lucerne Investment Partners. Anthony founded and led the Australian Wealth Management business at Canaccord Genuity – a global investment bank. Anthony holds a Bachelor of Economics and Bachelor of Commerce degrees from Australian National University.

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: Chairman of the Remuneration Committee and member of the Audit and Risk Committee

Interests in shares: 1,015,000 ordinary shares  
Interests in options/warrants: Nil options/warrants over ordinary shares  
Interests in rights: Nil performance rights over ordinary shares

Name: Diane Jones  
Title: Chief Executive Officer, Executive Director  
Experience and expertise: Prior to joining LawFinance Limited in 2016, Diane was the Chief Operating Officer, Chief Financial Officer and Company Secretary of Australia's largest litigation funder IMF Bentham Limited (ASX: IMF).

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: Diane retained the role of Group Company Secretary up to 15 November 2018.

Interests in shares: 3,574,098 ordinary shares  
Interests in options/warrants: Nil options/warrants over ordinary shares  
Interests in rights: Nil performance rights over ordinary shares  
Contractual rights to shares: 500 convertible bonds

Name: David Wattel  
Title: Executive Director  
Experience and expertise: David graduated from the University of Illinois in 1984 with a degree in economics before obtaining his Juris Doctor (JD) in 1988 from Arizona State University College of Law. 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. David has been actively managing and overseeing the growth of NHF.

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: None

Interests in shares: 107,548,701 ordinary shares  
Interests in options/warrants: 61,431,818 warrants over ordinary shares; Nil options over ordinary shares  
Interests in rights: Nil performance rights over ordinary shares

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

### Company secretary

Dean Jagger was appointed Company Secretary on 15 November 2018. Dean works in the company secretarial division of Automic Group, a professional services company providing company secretarial, legal, registry and accounting services to Australian entities. Dean provides company secretarial and corporate compliance services to several listed and private companies. Dean has over 10 years' experience in the financial services sector.

The previous Company Secretary was Diane Jones who resigned from the position on 15 November 2018.



## LawFinance Limited (formerly JustKapital Limited)

### Directors' report

31 December 2018

#### Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the period ended 31 December 2018, and the number of meetings attended by each director were:

	Full Board Attended	Full Board Held
Tim Storey	6	6
Anthony Murphy	6	6
Diane Jones	6	6
David Wattel	3	4

Held: represents the number of meetings held during the time the director held office.

The Audit and Risk Committee and Remuneration Committee meetings were combined with Board meetings as detailed above.

#### Remuneration report (audited)

The remuneration report details the key management personnel ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- General performance and link to remuneration policy
- Additional disclosures relating to KMP

#### Details of the KMP

The KMP currently comprise of the following directors and other senior executives of the Group.

Name	Title
Non-Executive Directors	
Tim Storey	Non-Executive Chairman, Non-Executive Director
Anthony Murphy	Non-Executive Director
Executive Director	
Diane Jones	Chief Executive Officer, Executive Director
David Wattel	Chief Executive Officer - NHF, Executive Director (Appointed on 26 September 2018)
Senior Executives	
Anthony Hersch	Chief Operating Officer
Craig Beaton	Chief Financial Officer
Sarika Merchant	Chief Financial Officer - NHF (Appointed on 1 October 2018)*
Richard Cruz	Chief Operating Officer - NHF (Appointed on 1 October 2018)*

\* Date of effective control of NHF

### *Principles used to determine the nature and amount of remuneration*

#### *Remuneration & Nominations Committee ('R&NC')*

Due to changes to the size and composition of the Board, the responsibilities of the R&NC continued to be performed by the full Board during the financial period ended 31 December 2018. Therefore, during the financial period ended 31 December 2018 the Board was responsible for the following in relation to the remuneration policy and practices of the Group:

- determining and reviewing remuneration arrangements for the Board of Directors ('the Board') and the senior executives; and
- assessing the appropriateness of the nature and amount of the emoluments of the directors and senior executives by reference to relevant employment market conditions, with the overall objective of ensuring the best stakeholder benefit from the Board and executive team

#### *Remuneration policy*

The remuneration policy of the Group has been designed to align KMP objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific short term and long term incentives based on key performance areas affecting the Group's financial results.

During the financial period ended 31 December 2018, the Board's policy for determining the nature and amount of remuneration for KMP of the Group was developed by the R&NC and approved by the Board prior to the financial period ended 31 December 2018. This is detailed below:

- senior executives receive a fixed remuneration component;
- senior executives may receive a variable remuneration component via performance incentives;
- performance incentives are paid once predetermined key performance indicators ('KPIs') have been met;
- incentives paid in the form of options or rights are intended to align the interests of the Group and senior executives with those of the shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means; and
- senior executive packages are reviewed annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

#### *Non-executive directors remuneration*

Non-executive directors' fees and payments are reviewed annually. Usually, this review will be undertaken by the R&NC, however, due to the current structure of the Board, this responsibility has currently moved to the Board. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors may be offered the opportunity, and encouraged, to participate in the Group's equity plan arrangements to align their interests with shareholder interests.

#### *Non-executive director fees*

Role	US\$
Chairman	75,905
Non-Executive Director	54,218

ASX listing rules require the aggregate non-executive director remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 30 November 2011, where the shareholders approved a maximum annual aggregate remuneration of US\$216,870 (A\$300,000).

#### *Executive remuneration*

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components. The executive remuneration and reward framework has the following components, the combination of these comprise the executive's total remuneration.

#### *Fixed remuneration*

Fixed compensation, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the R&NC. The process consists of a review of Group and individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

*Variable remuneration*

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

The variable component is delivered in two parts:

*a) Short Term Incentive Plan ('STIP')*

The STIP is a discretionary annual bonus payment available to participants who are senior executives of the Company and is based on a percentage (up to 30% for the financial period ended 31 December 2018) of the senior executive participants total fixed remuneration ('TFR'), payable in cash or ordinary shares of the Company at the discretion of the Board.

The purpose of the STIP component is to provide an annual 'at risk' incentive to senior executive participants that is linked to the achievement of specific financial and non-financial objectives. Participants are eligible to participate in the STIP from the beginning of each financial year, which is also when financial and non-financial performance objectives are set for each Executive Participant. At the end of the financial year, the financial objectives are reassessed for the following financial year, and may include stretch targets where the Board thinks this is consistent with enhancing Total Shareholders Return ('TSR').

*b) Long Term Incentive Plan ('LTIP')*

The LTIP is a discretionary bonus available to directors and senior executives and complements the STIP. The LTIP encourages equity ownership and gives participants the opportunity to be rewarded for shareholder value creation.

The LTIP comprises any one, or a combination of the following:

- (i) options;
- (ii) performance rights (or, in certain circumstances, a cash payment in lieu of shares); and/or
- (iii) plan loan under the Loan Agreement (for the purpose of funding the issue price of the shares offered)

*Use of remuneration consultants*

During the financial period ended 31 December 2018, the Board engaged HRascent to review and advise on KMP remuneration, for both directors and senior executives. The fees paid for this review and advice was US\$19,880.

*Voting and comments made at the Company's 2018 Annual General Meeting ('AGM')*

At the 2018 AGM held on 15 November 2018, 98.68% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018.

**LawFinance Limited (formerly JustKapital Limited)**

**Directors' report**

**31 December 2018**

**Details of remuneration**

*Amounts of remuneration*

Remuneration for the period 1 July 2018 to 31 December 2018.

	Salary and fees	Short-term benefits EIP and bonuses	Non- monetary	Post- employment benefits Super- annuation	Long-term benefits Long service leave	Share- based payments Equity- settled	Total
<b>6 months ended 31 December 2018</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<i>Executive directors:</i>							
Diane Jones	164,268	72,290	-	7,421	-	-	243,979
David Wattel (i)	100,833	2,298	-	-	-	-	103,131
<i>Non-Executive Directors:</i>							
Tim Storey (ii)	27,651	-	-	-	-	-	27,651
Anthony Murphy	20,301	-	-	1,929	-	-	22,230
<i>Other KMP:</i>							
Anthony Hersch	119,086	-	-	7,421	-	-	126,507
Craig Beaton	74,271	-	-	7,056	-	-	81,327
Sarika Merchant (iii)	56,400	27,298	983	-	-	-	84,681
Richard Cruz (iii)	57,500	52,298	1,135	-	-	-	110,933
	<u>620,310</u>	<u>154,184</u>	<u>2,118</u>	<u>23,827</u>	<u>-</u>	<u>-</u>	<u>800,439</u>

- (i) From date of appointment, 26 September 2018 to 31 December 2018. The short-term benefits paid in the period related to liabilities assumed as part of the purchase of NHF.
- (ii) Prolex Limited, an entity associated with Tim Storey, was paid US\$27,651 for directors fees and bonuses (2018: US\$65,056).
- (iii) From date of appointment, 1 October 2018 to 31 December 2018 (date of effective control of NHF). The short-term benefits paid in the period related to liabilities assumed as part of the purchase of NHF.

Remuneration for the period 1 July 2017 to 30 June 2018.

	Salary and fees	Short-term benefits EIP and bonuses	Non- monetary	Post- employment benefits Super- annuation	Long term benefits Long service Leave	Share- based payments Equity- settled	Total
<b>12 months ended 30 June 2018</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<i>Executive Directors:</i>							
Philip Kapp (i), (viii)	329,806	-	-	-	-	93,233	423,039
Diane Jones (ii)	318,105	116,040	-	15,510	-	73,810	523,465
<i>Non-Executive Directors:</i>							
Tim Storey (iii), (ix)	47,963	-	-	-	-	17,093	65,056
Michael Hill (iv)	24,020	-	-	2,282	-	-	26,302
Anthony Murphy (v)	22,608	-	-	2,148	-	-	24,756
<i>Other KMP:</i>							
Anthony Hersch (vi)	255,250	58,020	-	15,510	-	38,847	367,627
Craig Beaton (vii)	144,829	38,680	-	13,759	-	-	197,268
	<u>1,142,581</u>	<u>212,740</u>	<u>-</u>	<u>49,209</u>	<u>-</u>	<u>222,983</u>	<u>1,627,513</u>

## LawFinance Limited (formerly JustKapital Limited)

### Directors' report

31 December 2018

- (i) Philip Kapp resigned as Executive Chairman and Managing Director on 31 October 2017. He received a payment of US\$147,695 inclusive of notice on termination which is included in Salaries and fees above.
- (ii) Diane Jones was appointed interim Chief Executive Officer on 31 October 2017 and appointed Executive Director and Chief Executive Officer on 27 November 2017.
- (iii) Tim Storey was appointed Non-executive Chairman on 31 October 2017, prior to which he was a Non-Executive Director.
- (iv) Michael Hill resigned as Non-Executive Director on 27 November 2017.
- (v) Anthony Murphy was appointed Non-Executive Director on 31 October 2017.
- (vi) Anthony Hersch was appointed Chief Operating Officer on 27 November 2017.
- (vii) Craig Beaton was appointed Chief Financial Officer on 27 November 2017.
- (viii) Kapp Consulting Pty Limited, an entity associated with Philip Kapp, was paid US\$329,806 for directors fees.
- (ix) Prolex Limited, an entity associated with Tim Storey, was paid US\$47,963 for directors fees and bonuses.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		Performance related - STIP		Performance related - LTIP	
	6 months December 2018	31 12 months 30 June 2018	6 months December 2018	31 12 months 30 June 2018	6 months December 2018	31 12 months 30 June 2018
<i>Executive Directors:</i>						
Philip Kapp	-	78%	-	-	-	22%
Diane Jones	70%	64%	30%	22%	-	14%
David Wattel	98%	-	2%	-	-	-
<i>Non-Executive Directors:</i>						
Tim Storey	100%	74%	-	-	-	26%
Michael Hill	-	100%	-	-	-	-
Anthony Murphy	100%	100%	-	-	-	-
<i>Other KMP:</i>						
Anthony Hersch	100%	73%	-	16%	-	11%
Craig Beaton	100%	80%	-	20%	-	-
Sarika Merchant	68%	-	32%	-	-	-
Richard Cruz	53%	-	47%	-	-	-

### Service agreements

Remuneration and other terms of employment for KMP are formalised in service agreements. Details of these agreements are as follows:

Name:	Tim Storey
Title:	Non-Executive Chairman, Non-Executive Director
Agreement commenced:	1 April 2015
Term of agreement:	Ongoing
Details:	Tim is paid a gross salary of US\$75,905 (A\$105,000) (US\$34,700 (A\$48,000) until 30 September 2018) per annum.
Name:	Anthony Murphy
Title:	Non-Executive Director
Agreement commenced:	31 October 2017
Term of agreement:	Ongoing
Details:	Anthony is paid a gross salary of US\$54,218 (A\$75,000) (US\$34,700 (A\$48,000) until 30 September 2018) per annum inclusive of superannuation.

## LawFinance Limited (formerly JustKapital Limited)

### Directors' report

31 December 2018

Name: Diane Jones  
Title: Chief Executive Officer, Executive Director  
Agreement commenced: 15 March 2016  
Term of agreement: Ongoing  
Details: Diane is paid a gross salary of US\$397,595 (A\$550,000) (US\$289,160 (A\$400,000) until 30 September 2018) per annum inclusive of superannuation. Notice period is 6 months by the Company or 3 months by the employee.

Name: David Wattel  
Title: Executive Director  
Agreement commenced: 28 September 2018  
Term of agreement: Ongoing  
Details: David is paid a gross salary of US\$400,000 per annum inclusive of superannuation. Notice period is 1 month by the company, or 3 months by the employee. Refer to details of bonus at the end of this section.

Name: Anthony Hersch  
Title: Chief Operating Officer  
Agreement commenced: 18 April 2016  
Term of agreement: Ongoing  
Details: Anthony is paid a gross salary of US\$253,015 (A\$350,000) per annum inclusive of superannuation. Notice period is 3 months.

Name: Craig Beaton  
Title: Chief Financial Officer  
Agreement commenced: 9 September 2016  
Term of agreement: Ongoing  
Details: Craig is paid a gross salary of US\$162,653 (A\$225,000) per annum inclusive of superannuation. Notice period is 1 month.

Name: Sarika Merchant  
Title: Chief Financial Officer - NHF  
Agreement commenced: 11 April 2018  
Term of agreement: Ongoing  
Details: Sarika is paid an annual salary of US\$225,000 per annum; No notice period.

Name: Richard Cruz  
Title: Chief Operating Officer - NHF  
Agreement commenced: No signed agreement in place  
Term of agreement: NA  
Details: Richard is paid an annual salary of US\$230,000 per annum; No notice period.

KMPs have no entitlement to termination payments in the event of removal for misconduct.

#### Details of bonus

David Wattel is entitled to receive a US\$4.15m non-discretionary bonus paid equally over 5 quarterly payments (US\$0.83m per quarter) after satisfaction of the following criteria:

(a) US\$50m of the acquired book of Net Receivables (Gross Accounts Receivables less provision for discounts) is collected; and

(b) Net Receivables (Gross Accounts Receivables less provision for discounts) has achieved the following hurdles:

- By 31/03/2020, Net Receivables is at least US\$175m
- By 30/06/2020, Net Receivables is at least US\$180m
- By 30/09/2020, Net Receivables is at least US\$190m
- By 31/12/2020, Net Receivables is at least US\$199m
- By 31/03/2021, Net Receivables is at least US\$209m

(c) The NHF Founder Promissory Notes of US\$9m are repaid in full (Refer to note 19); and

(d) Both Atalaya Capital Management and Washington H. Soul Pattinson have consented to the payment in writing.

### Share-based compensation

#### Issue of shares

During the period ended 31 December 2018, 1,264,569 ordinary shares were issued to directors and senior executives as a result of performance rights granted through the financial year ended 30 June 2017 LTIP vesting and being exercised. Details are provided in the following tables.

#### Options

There were no options over ordinary shares granted to or vested by directors and other KMP as part of compensation during the period ended 31 December 2018.

#### Performance rights

There were no performance rights over ordinary shares granted to directors and other KMP as part of compensation during the period ended 31 December 2018.

### General performance and link to remuneration policy

The earnings of the Group for the five years to 31 December 2018 are summarised below:

	31 December 2018 US\$'000	30 June 2018 US\$'000	30 June 2017 US\$'000	30 June 2016 US\$'000	30 June 2015 US\$'000
Total revenue and other income	4,675	5,918	3,570	(675)	-
EBITDA (excluding the litigation funding business)	240	2,857	1,929	(1,603)	-
Loss after income tax	(11,427)	(5,142)	(4,279)	(2,034)	(4,965)

The factors that are considered to affect TSR are summarised below:

	31 December 2018	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Share price at financial year end (A\$)	0.074	0.070	0.200	0.230	0.190
Basic loss per share (cents per share)	(4.56)	(3.68)	(3.53)	(1.85)	(10.94)
Diluted loss per share (cents per share)	(4.56)	(3.68)	(3.53)	(1.85)	(10.94)

### Short Term Incentive Plan

#### Financial period ended 31 December 2018 - STIP

Diane Jones was paid a short term incentive of \$72,290 to reflect her efforts in successfully completing the purchase of NHF. There were no other short term incentives granted during the financial period ended 31 December 2018.

### Short Term Incentive Plan

#### Financial year ended 30 June 2018 - STIP

The following table provides the details of STIP opportunity for directors and KMP's for performance during the financial year ended 30 June 2018:

Name	Role	Maximum US\$
Diane Jones	Chief Executive Officer	116,040
Anthony Hersch	Chief Operating Officer	58,020
Craig Beaton	Chief Financial Officer	38,680

### Long Term Incentive Plan

There were no grants of equity under the LTIP during the financial period ended 31 December 2018 and 30 June 2018.



### Additional disclosures relating to KMP

#### Shareholding

The number of ordinary shares in the Company held during the financial period by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Received as part of remuneration	Additions	Disposals/ other*	Balance at the end of the period
Tim Storey	3,218,212	-	3,218,212	166,590	6,603,014
Anthony Murphy	840,000	-	175,000	-	1,015,000
Diane Jones	1,427,366	-	1,427,366	719,366	3,574,098
David Wattel	-	-	107,548,701	-	107,548,701
Anthony Hersch	578,614	-	-	378,613	957,227
Craig Beaton	-	-	50,000	-	50,000
	6,064,192	-	112,419,279	1,264,569	119,748,040

\* Includes vesting of previously granted Performance rights.

During the financial period ended 31 December 2018, there were no shares in the Company held by directors and KMP's other than those disclosed in the table above.

#### Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial period by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the period
Tim Storey	166,590	-	(166,590)	-	-
Diane Jones	719,366	-	(719,366)	-	-
Anthony Hersch	378,613	-	(378,613)	-	-
	1,264,569	-	(1,264,569)	-	-

During the financial period ended 31 December 2018, there were no performance rights over ordinary shares in the Company held by directors and KMP's other than those disclosed in the table above.

#### Convertible bonds

The number of convertible bonds in the Company held during the financial period by each director and other members of KMP of the Group, including their personally related parties, is set below:

	Balance at the start of the period	Received part of remuneration	Additions	Disposals/ Other	Balance at the end of the period
Diane Jones	500	-	-	-	500

During the financial period ended 31 December 2018, there were no convertible bonds in the Company held by directors and KMP's other than those disclosed in the table above.

#### Warrants holding

The number of warrants over ordinary shares in the Company held during the financial period by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the period
David Wattel	-	61,431,818	-	-	61,431,818
	-	61,431,818	-	-	61,431,818



**LawFinance Limited (formerly JustKapital Limited)**  
**Directors' report**  
**31 December 2018**

During the financial period ended 31 December 2018, there were no warrants over ordinary shares in the Company held by directors and KMP's other than those disclosed in the table above.

*Other transactions with KMP and their related parties*

Lucerne Group manages funds on behalf of third parties. Anthony Murphy is the Chief Executive Officer of Lucerne Investment Partners, part of the Lucerne Group. Refer to note 29 for further details.

David Wattel is a director of Multus Medical LLC, a company that specialises in creating 3-Dimensional anatomical schematics from standardised MRI data. This company provides services to patients to assist in their personal injury insurance claims, and NHF fund the cost of these services. David is also a founding member of Wattel & York – Attorneys at Law, a personal injury and property damage law firm. Wattel & York have the carriage and conduct over a small number of personal injury matters where NHF holds a medical lien. Refer to note 29 for further details.

***This concludes the remuneration report, which has been audited.***

**Shares under option**

There were no unissued ordinary shares of LawFinance Limited under option outstanding at the date of this report.

**Shares under performance rights**

There were no unissued ordinary shares of LawFinance Limited under performance rights outstanding at the date of this report.

**Shares under warrants**

Unissued ordinary shares of LawFinance Limited under warrants at the date of this report are as follows:

Grant date	Expiry date	Exercise price*	Number under rights
28/09/2018**	28/09/2022	US\$0.099	329,880,000
28/09/2018***	28/09/2022	US\$0.099	122,863,636
			<u>452,743,636</u>

\* Exercise price - A\$0.14

\*\* Warrants issued to other Syndicated Acquisition Facility participants

\*\*\* Warrants issued to NHF Founders

**Shares issued on the exercise of options**

There were no ordinary shares of LawFinance Limited issued on the exercise of options during the period ended 31 December 2018 and up to the date of this report.

**Shares issued on the exercise of performance rights**

The following ordinary shares of LawFinance Limited were issued during the period ended 31 December 2018 and up to the date of this report on the exercise of performance rights granted:

Date performance rights granted	Vesting date	Exercise date	Exercise price	Number of shares issued
30/11/2016	30/06/2018	07/11/2018	US\$0.00	545,203
30/11/2016	30/06/2018	21/11/2018	US\$0.00	719,366
				<u>1,264,569</u>

### **Shares issued on the exercise of warrants**

There were no ordinary shares of LawFinance Limited issued on the exercise of warrants during the period ended 31 December 2018 and up to the date of this report.

### **Indemnity and insurance of officers**

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial period, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### **Indemnity and insurance of auditor**

The Company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial period, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

### **Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

### **Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in note 26 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial period, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 26 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

### **Officers of the Company who are former directors of Stantons International**

There are no officers of the Company who are former directors of Stantons International.

### **Rounding of amounts**

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### **Auditor's independence declaration**

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

**Auditor**

Stantons International continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



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Tim Storey  
Chairman

29 March 2019  
Sydney

29 March 2019

Board of Directors  
LawFinance Limited  
Suite 2, Level 16  
56 Pitt Street  
Sydney NSW 2000

Dear Directors

**RE: LAW FINANCE LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of LawFinance Limited.

As Audit Director for the audit of the financial statements of LawFinance Limited for the year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**  
**(Trading as Stantons International)**  
**(An Authorised Audit Company)**



**Martin Michalik**  
Director

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

		<b>Consolidated</b>	
		<b>6 months</b>	<b>12 months</b>
		<b>31 December</b>	<b>30 June</b>
	<b>Note</b>	<b>2018</b>	<b>2018</b>
		<b>US\$'000</b>	<b>US\$'000</b>
<b>Revenue</b>			
Net income from disbursement funding/medical lien funding		2,149	4,017
Other revenue	5	192	441
Total revenue		2,341	4,458
Non-supplier related cost of sales		(278)	(174)
Gross margin		2,063	4,284
Other income	6	1,744	1,460
Foreign exchange gain		590	-
<b>Expenses</b>			
Employee benefits expense	7	(1,727)	(2,018)
Depreciation and amortisation expense	7	(82)	(78)
Impairment of assets	15	(2,765)	(808)
Administration and other expenses	7	(2,553)	(1,630)
Business purchase/selling expenses	7	(5,768)	(2,804)
Finance costs	7	(5,333)	(4,015)
<b>Loss before income tax benefit</b>		(13,831)	(5,609)
Income tax benefit	8	2,404	467
<b>Loss after income tax benefit for the period</b>		(11,427)	(5,142)
<b>Other comprehensive income/(loss)</b>			
<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)
<b>Total comprehensive loss for the period</b>		(10,868)	(5,294)
Loss for the period is attributable to:			
Non-controlling interest		(200)	-
Owners of LawFinance Limited		(11,227)	(5,142)
		(11,427)	(5,142)
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		(200)	-
Owners of LawFinance Limited		(10,668)	(5,294)
		(10,868)	(5,294)
		<b>Cents</b>	<b>Cents</b>
Basic loss per share	35	(4.56)	(3.68)
Diluted loss per share	35	(4.56)	(3.68)

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			
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	9	3,696	934	5,867
Loan and other receivables	10	29,883	8,959	6,245
Prepayments		67	82	161
Total current assets		33,646	9,975	12,273
<b>Non-current assets</b>				
Loan and other receivables	11	69,438	12,645	12,606
Investment held in joint operations	12	1,166	1,221	1,243
Property, plant and equipment	13	198	105	165
Goodwill	14	40,539	4,392	4,571
Other intangibles	15	8,784	10,999	6,733
Deferred tax	8	6,789	4,630	4,354
Total non-current assets		126,914	33,992	29,672
<b>Total assets</b>		160,560	43,967	41,945
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	16	11,649	3,192	2,656
Borrowings	17	19,602	4,744	7,230
Employee benefits		215	97	463
Deferred consideration	18	-	370	385
Total current liabilities		31,466	8,403	10,734
<b>Non-current liabilities</b>				
Borrowings	19	111,120	30,929	23,371
Total non-current liabilities		111,120	30,929	23,371
<b>Total liabilities</b>		142,586	39,332	34,105
<b>Net assets</b>		17,974	4,635	7,840
<b>Equity</b>				
Issued capital	20	37,649	18,421	16,555
Reserves	21	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	-	-
<b>Total equity</b>		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**  
**For the period ended 31 December 2018**

<b>Consolidated</b>	<b>Issued capital US\$'000</b>	<b>Reserves US\$'000</b>	<b>Accumulated losses US\$'000</b>	<b>Non-controlling interest US\$'000</b>	<b>Total equity US\$'000</b>
Balance at 1 July 2017	16,555	1,113	(9,828)	-	7,840
Loss after income tax benefit for the year	-	-	(5,142)	-	(5,142)
Other comprehensive loss for the year, net of tax	-	(152)	-	-	(152)
Total comprehensive loss for the year	-	(152)	(5,142)	-	(5,294)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 20)	1,866	-	-	-	1,866
Share-based payments	-	223	-	-	223
Balance at 30 June 2018	<u>18,421</u>	<u>1,184</u>	<u>(14,970)</u>	<u>-</u>	<u>4,635</u>

<b>Consolidated</b>	<b>Issued capital US\$'000</b>	<b>Reserves US\$'000</b>	<b>Accumulated losses US\$'000</b>	<b>Non-controlling interest US\$'000</b>	<b>Total equity US\$'000</b>
Balance at 1 July 2018	18,421	1,184	(14,970)	-	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	-	559	(11,227)	(200)	(10,868)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 20)	19,228	-	-	-	19,228
Acquisition of non-controlling interests (note 31)	-	-	-	903	903
Distributions to NCI	-	-	-	(179)	(179)
Share-based payments	-	4,255	-	-	4,255
Balance at 31 December 2018	<u>37,649</u>	<u>5,998</u>	<u>(26,197)</u>	<u>524</u>	<u>17,974</u>

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 changes in equity 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**

		<b>Consolidated</b>	
		<b>6 months</b>	<b>12 months</b>
		<b>31 December</b>	<b>30 June</b>
	<b>Note</b>	<b>2018</b>	<b>2018</b>
		<b>US\$'000</b>	<b>US\$'000</b>
<b>Cash flows from operating activities</b>			
Cash collections from customers (inclusive of GST)		10,674	9,537
Payments to suppliers and employees		(4,632)	(6,369)
Interest received		72	237
		<hr/>	<hr/>
Net cash from operating activities	33	6,114	3,405
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	31	(27,520)	-
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)	15	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	-
		<hr/>	<hr/>
Net cash (used in) investing activities		(4,483)	(12,179)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	20	5,093	1,910
Share issue transaction costs		(55)	(147)
Proceeds from borrowings - disbursement funding division	34	5,919	10,662
Proceeds from borrowings - medical lien funding division	34	4,912	-
Proceeds from borrowings - corporate	34	438	3,181
Repayment of borrowings - disbursement funding division	34	(3,840)	(7,677)
Repayment of borrowings - medical lien funding division	34	(4,697)	-
Repayment of borrowings - corporate	34	(1,988)	(35)
Interest and fees related to loans and borrowings		(4,954)	(3,717)
		<hr/>	<hr/>
Net cash from financing activities		828	4,177
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		2,459	(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		303	(336)
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial period	9	<u>3,696</u>	<u>934</u>

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

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 March 2019.

## **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.

### **New or amended Accounting Standards and Interpretations adopted**

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Australian Accounting Standards AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers' (and their related amendments) which were mandatorily effective for annual periods commencing on or after 1 January 2018 were early adopted by the Group effective from 1 July 2017.

### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, modified where appropriate, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### **Presentation currency**

During the period, the Group changed the currency in which it presents its financial statements from Australian dollars to US dollars ('US\$' or '\$'), in order to better reflect the majority of the Group's revenues and operating expenses which are 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:

**Note 2. Significant accounting policies (continued)**

- 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.

**Going concern**

As at 31 December 2018 the Group had net current assets of \$2,180,000 (30 June 2018: \$1,572,000). The directors' have evaluated the Group's principal operations and expected events and conditions and concluded that the Group will be able to continue as a going concern. The Group does not hold significant cash reserves. However, the directors' assessment of the significant judgments made by management, including expected cash collections from the medical lien funding business; expected cash collections from the disbursement funding business; and expected case completions from the litigation funding portfolio, as part of the Group's financial planning processes, has formed part of this assessment.

The directors' have also noted that the Group's facility providers have historically provided repayment extensions to the Group as required, due to the lumpy nature of the Group's litigation funding receipts. Although facilities are due to be repaid within 12 months, the litigation portfolio is also expected to mature in that time frame, which is expected to generate sufficient returns to meet these obligations. Should there be delays in receiving settlement proceeds from the litigation funding business, the directors expect to be able to secure favourable extension terms from the Group's financiers in relation to these maturing facilities.

If, which is not expected, the completions of the litigation funding cases do not resolve favourable, the Group will be required to seek additional capital, either by way of additional facilities or equity. Again given the historical ability for the Group to raise such funds, the directors expect to be able to raise this additional capital if it is required. As such, no adjustment is required to the carrying value of the assets or liabilities of the Group to reflect the situation if the Group were not a going concern.

**Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 30.

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of LawFinance Limited as at 31 December 2018 and the results of all subsidiaries for the period then ended.

Subsidiaries are all those entities over which 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.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

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.

## Note 2. Significant accounting policies (continued)

### 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 translation

The financial statements are presented in United States dollars, which is LawFinance Limited's presentation currency. The functional currency of the Group's Australian operations is Australian dollars and that of its United States operations is United States 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.

### Revenue recognition

The Group elected to apply AASB 15 'Revenue from Contracts with Customers' on a full retrospective basis as permitted by this standard as if it had been applied since the inception of all its contracts with customers that are presented in the financial statements. The cumulative effect of retrospective application was recognised as an adjustment to the opening accumulated losses or other relevant components of equity as at 1 July 2016.

In the Australian disbursement funding business, the Group enters into contracts with law firms to pay, on the law firms' behalf, legal disbursements to progress their clients' claims. These disbursements include as independent expert reports and medico-legal reports relating to the client's injuries.

In the US medical lien funding business, the Group purchases a lien or obtains a letter of protection over the medical receivables associated with the personal injury cases from health care providers and hospitals.

Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard defines a customer as 'a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration'. Management had undertaken an exercise to assess the Group's contractual arrangements within its disbursement funding business and medical lien funding business as part of its implementation of AASB 15. The primary factor considered in making this assessment was most notably whether the Group is contractually engaged to provide or deliver a good or service to the law firm.

As a result of this assessment, the Group determined that it does not take primary responsibility and does not have any obligation for the supply or accuracy of the underlying expert reports funded by the Group's Australian disbursement funding business. The Group solely enters into a contract with the law firm to provide financing for legal disbursements in relation to their clients' legal matters. Considering the nature of the disbursement funding arrangements whereby it does not involve the provision of any good or service to the law firm, the Group had concluded that the arrangement does not meet the definition of a contract with a customer under AASB 15.

Further, the Group does not take primary responsibility for the actual medical treatment in the United States nor is it obliged to purchase any medical lien. The Group solely enters into a contract with the medical provider to provide financing for that individual medical treatment and takes a lien over the invoice from the medical provider and notifies the law firm of that medical lien. Considering this arrangement does not involve the provision of any good or service to the law firm, the Group had concluded that the arrangement does not meet the definition of a contract with a customer under AASB 15.

## Note 2. Significant accounting policies (continued)

As both arrangements give rise to a contractual right to receive cash from the law firm, the Group has concluded that the financing arrangements, both in the US and Australia, meets the definition of a financial instrument. Income arising from changes in the fair value of financial instruments is within the scope of AASB 9 'Financial Instruments'. In applying AASB 9, given the final financial outcome of the provision of the financing arrangement is variable, that is the final amount to be received by the Group is conditional upon the decisions of either the relevant Court or the Insurer to the counterparty for whom the financial arrangement has been sought, the financial arrangement has been treated on a fair value through profit or loss basis.

The Group recognises revenue as follows:

### *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.

The Group's revenue recognition policy for the disbursement funding business takes into consideration the inherent finance component embedded in that revenue. Refer to the 'financial instruments' policy.

The Group's revenue recognition policy for the medical lien funding business takes into consideration the inherent finance component embedded in that revenue. Refer to the 'financial instruments' policy.

The Group's revenue recognition policy for the short-term loan product is to recognise the interest component attaching to the loan as it is earned under the short-term loan contract.

The Group's revenue recognition policy for the Insurance broking division recognises revenue upon the acceptance of the insurance policy by the customer.

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

### *Rent*

Rent revenue is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as part of the rental revenue.

### *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.

## Note 2. Significant accounting policies (continued)

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, 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

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 relates to the loan receivables arising from its disbursement funding business and medical lien funding business. The Group's loan receivables from these funding businesses 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 or medical lien 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.



## Note 2. Significant accounting policies (continued)

### *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.

### **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.

### **Trade and other receivables**

Trade receivables, other than loan receivables from its disbursement funding business and medical lien funding business mentioned previously in the Financial instruments note, are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

### **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
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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.

## Note 2. Significant accounting policies (continued)

### 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.

#### *Customer relationships*

As part of the acquisition of NHF a portion of the business consideration was applied to the value of existing long-standing customer relationships. This value will be amortised over a 10-year period.

#### *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 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, 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.

## Note 2. Significant accounting policies (continued)

**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 period 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 interest 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.

### 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. 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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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



## **Note 2. Significant accounting policies (continued)**

Equity-settled transactions are awards of shares, or options over shares, that 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, as 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, they are treated as if they had 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 is 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.

## Note 2. Significant accounting policies (continued)

### 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 LawFinance Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

#### *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.

## Note 2. Significant accounting policies (continued)

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.

### Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### Comparatives

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

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

#### AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset and lease liability are recognised at the commencement of the lease. The right-of-use asset is recognised at an amount that is equivalent to the initial measurement of the lease liability, adjusted for lease prepayments, lease incentives received, initial direct costs incurred, and an estimate of any future restoration, removal or dismantling costs. The lease liability is recognised at the present value of future lease payments comprising fixed lease payments less incentives, variable lease payments, residual guarantees payable, payment of purchase options where exercise is reasonably certain, and any anticipated termination penalties. The lease payments are discounted at the rate implicit in the lease, or where not readily determinable, the entity's incremental borrowing rate. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 January 2019. There is expected to be an accounting impact, but management are yet quantify the impact of its adoption on the Group.

#### IASB revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework has been issued by the International Accounting Standards Board ('IASB'), but the Australian equivalent has yet to be published. The revised framework is applicable for annual reporting periods beginning on or after 1 January 2020 and the application of the new definition and recognition criteria may result in future amendments to several accounting standards. Furthermore, entities who rely on the conceptual framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards may need to revisit such policies. The Group will apply the revised conceptual framework from 1 January 2020 and is yet to assess its impact.

#### Other amending accounting standards

Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the company as their amendments provide either clarification of existing accounting treatment or editorial amendments.

### Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### *Fair value measurement and carrying value measurement of loan receivables*

When the fair values of loan receivables recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using actuarial valuation techniques that take into account discount rates, credit risk and analysis of discounts and write offs. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values and the deferred day 1 margin. Changes in assumptions relating to these factors could affect the reported fair value and carrying value of loan receivables and its fair value movement through profit or loss.

The key assumptions used to determine the fair value of the loan receivables are provided in note 24.

#### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

#### *Allowance for expected credit losses*

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

#### *Goodwill*

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows (refer to note 14).

#### *Impairment of non-financial assets other than goodwill*

The Group assesses impairment of non-financial assets other than goodwill at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. This includes an assessment of each individual Litigation contract in progress as to whether it is likely to be successful, the cost and timing of future expected cash flows to completion and the ability of the defendant(s) to pay upon successful completion. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions (refer to note 15).

#### *Provision for adverse costs*

In the event that litigation funded by the Group is unsuccessful, the Group raises a provision which is based upon the Group's best estimate of the amount of the adverse costs it will have to remit following consultation with external advisors.

#### *Income tax*

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

### Note 3. Critical accounting judgements, estimates and assumptions (continued)

#### Recovery of deferred tax assets

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

### Note 4. 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 and short-term funding, (ii) National Health Finance, comprising the US medical lien funding 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
<b>Consolidated - 6 months - 31 December 2018</b>				
<b>Revenue</b>				
Net income from disbursement funding/medical lien funding	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
<b>Total revenue</b>	<b>2,102</b>	<b>741</b>	<b>1,832</b>	<b>4,675</b>
<b>Segment result</b>	<b>1,185</b>	<b>(945)</b>	<b>(8,656)</b>	<b>(8,416)</b>
Depreciation and amortisation	(25)	(6)	(51)	(82)
Finance costs	(1,064)	(1,914)	(2,355)	(5,333)
<b>Profit/(loss) before income tax benefit</b>	<b>96</b>	<b>(2,865)</b>	<b>(11,062)</b>	<b>(13,831)</b>
Income tax benefit				2,404
<b>Loss after income tax benefit</b>				<b>(11,427)</b>
<b>Assets</b>				
Segment assets	26,477	118,175	15,908	160,560
<b>Total assets</b>				<b>160,560</b>
<b>Liabilities</b>				
Segment liabilities	21,253	61,158	60,175	142,586
<b>Total liabilities</b>				<b>142,586</b>

**Note 4. Operating segments (continued)**

	JustKapital Finance US\$'000	Litigation funding, insurance and head office US\$'000	Total US\$'000
<b>Consolidated - 12 months - 30 June 2018</b>			
<b>Revenue</b>			
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
<b>Total revenue</b>	<b>4,412</b>	<b>1,506</b>	<b>5,918</b>
<b>Segment result</b>	<b>2,857</b>	<b>(4,373)</b>	<b>(1,516)</b>
Depreciation and amortisation	(51)	(27)	(78)
Finance costs	(2,224)	(1,791)	(4,015)
<b>Profit/(loss) before income tax benefit</b>	<b>582</b>	<b>(6,191)</b>	<b>(5,609)</b>
Income tax benefit			467
<b>Loss after income tax benefit</b>			<b>(5,142)</b>
<b>Assets</b>			
Segment assets	26,132	17,835	43,967
<b>Total assets</b>			<b>43,967</b>
<b>Liabilities</b>			
Segment liabilities	20,857	18,475	39,332
<b>Total liabilities</b>			<b>39,332</b>

**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.

	<b>Revenue from external customers</b>		<b>Geographical non-current assets</b>	
	<b>6 months 31 December 2018 US\$'000</b>	<b>12 months 30 June 2018 US\$'000</b>	<b>31 December 2018 US\$'000</b>	<b>30 June 2018 US\$'000</b>
Australia	2,200	4,458	12,279	16,717
United States	141	-	38,408	-
	<b>2,341</b>	<b>4,458</b>	<b>50,687</b>	<b>16,717</b>

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 5. Other revenue**

	<b>Consolidated</b>	
	<b>6 months</b>	<b>12 months</b>
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
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/>	<hr/> <hr/>

**Note 6. Other income**

	<b>Consolidated</b>	
	<b>6 months</b>	<b>12 months</b>
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
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/>	<hr/> <hr/>



Note 7. 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:

*Employee benefits expense*

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>

*Depreciation and amortisation*

Depreciation (note 13)	80	70
Amortisation (note 15)	2	8
	<u>82</u>	<u>78</u>

*Administration and other expenses*

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>

*Finance costs and expenses*

Interest expense and line fees	5,333	4,015
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*Business purchase/selling expenses*

Legal and professional fees	2,612	2,804
Warrant costs	3,156	-
	<u>5,768</u>	<u>2,804</u>



Note 8. Income tax

	Consolidated 6 months 31 December 2018 US\$'000	12 months 30 June 2018 US\$'000
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	(13,831)	(5,609)
Tax at the statutory tax rate of 27.5%	(3,804)	(1,542)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Expenses not deductible	481	660
Share-based payments	855	50
Bad debts	80	-
Adjustment recognised for prior periods	1	365
	(2,387)	(467)
Difference in overseas tax rates	(17)	-
Income tax benefit	(2,404)	(467)

	Consolidated 31 December 2018 US\$'000	30 June 2018 US\$'000
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Tax losses	4,866	4,352
Property, plant and equipment	-	2
Other temporary differences	1,317	1,283
Loans and other receivables	2,559	2,342
Set off deferred tax liability	(1,953)	(3,349)
Deferred tax asset	6,789	4,630

	Consolidated 31 December 2018 US\$'000	30 June 2018 US\$'000
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Property, plant and equipment	2	-
Intangibles	124	4
Loan and other receivables	-	1,735
Prepayments	2	-
Work in progress	1,825	1,610
Set off deferred tax asset	(1,953)	(3,349)
Deferred tax liability	-	-

**Note 8. Income tax (continued)**

The deferred tax assets will only be obtained if:

- i) Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- ii) The conditions for deductibility imposed by tax legislation continue to be complied with; and
- iii) No changes in tax legislation adversely affect the consolidated entity in realising the benefit.

**Note 9. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Cash at bank and on hand	3,696	934

Short-term cash deposits are used as bank guarantee security. Refer to note 27.

**Note 10. Current assets - loan and other receivables**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Loan receivables - disbursement funding/medical lien 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	1,755	365
	<u>29,883</u>	<u>8,959</u>

Loan receivables are dependent upon a decision in the related matter by the Court or the insurance company if a case is settled. The loan receivables disclosed above are neither past due nor impaired.

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

**Note 11. Non-current assets - loan and other receivables**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Loan receivables - disbursement funding/medical lien 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>

Loan receivables are dependent upon a decision in the related matter by the Court or the insurance company if a case is settled. The loan receivables disclosed above are neither past due nor impaired.

**Note 12. Non-current assets - investment held in joint operations**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Investment held in joint operation	<u>1,166</u>	<u>1,221</u>

The Group has a material 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 operation's investment in cases.

**Note 13. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Leasehold improvements - at cost	57	43
Less: Accumulated depreciation	(57)	(15)
	<u>-</u>	<u>28</u>
Plant and equipment - at cost	345	211
Less: Accumulated depreciation	(147)	(134)
	<u>198</u>	<u>77</u>
	<u>198</u>	<u>105</u>

**Note 13. Non-current assets - property, plant and equipment (continued)**

*Reconciliations*

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

<b>Consolidated</b>	<b>Leasehold improvements US\$'000</b>	<b>Plant and equipment US\$'000</b>	<b>Total US\$'000</b>
Balance at 1 July 2017	37	122	159
Additions	-	18	18
Exchange differences	-	(2)	(2)
Depreciation expense	(9)	(61)	(70)
Balance at 30 June 2018	28	77	105
Additions	17	3	20
Additions through business combinations (note 31)	-	157	157
Exchange differences	(1)	(3)	(4)
Depreciation expense	(44)	(36)	(80)
Balance at 31 December 2018	-	198	198

**Note 14. Non-current assets - goodwill**

	<b>Consolidated 31 December 2018 US\$'000</b>	<b>30 June 2018 US\$'000</b>
Goodwill - Australian disbursement funding business	4,194	4,392
Goodwill - US medical lien funding business (note 31)	36,345	-
	<b>40,539</b>	<b>4,392</b>

**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.

**Note 14. 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 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 funding business**

Goodwill arose from the acquisition of the National Health Finance business in September 2018 with an effective date of control of 1 October 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 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: 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.

*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 the 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 15. 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>
Customer relationships – US medical lien funding business	1,913	-
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><u>8,784</u></u>	<u><u>10,999</u></u>

*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	Customer relationships 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)
	<u>5</u>	<u>-</u>	<u>10,994</u>	<u>10,999</u>
Balance at 30 June 2018	5	-	10,994	10,999
Additions	4	1,913	3,429	5,346
Disposals	-	-	(5,914)	(5,914)
Exchange differences	-	-	(1,645)	(1,645)
Amortisation expense	(2)	-	-	(2)
	<u>7</u>	<u>1,913</u>	<u>6,864</u>	<u>8,784</u>
Balance at 31 December 2018	<u><u>7</u></u>	<u><u>1,913</u></u>	<u><u>6,864</u></u>	<u><u>8,784</u></u>

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 15.0% (30 June 2018: 13.5%).

As a result of the impairment testing performed an amount of \$2,528,000 was determined to be impaired and was written off during the period. No significant change in the key assumptions would result in any additional impairment charge.

**Note 16. Current liabilities - trade and other payables**

	Consolidated 31 December 2018 US\$'000	30 June 2018 US\$'000
Trade and other payables	7,556	1,936
Accruals	3,992	1,133
Goods and services tax payable	101	123
	<u>11,649</u>	<u>3,192</u>

Trade and other payables are paid within the agreed credit terms.

Refer to note 23 for further information on financial instruments.

**Note 17. Current liabilities - borrowings**

	Consolidated 31 December 2018 US\$'000	30 June 2018 US\$'000
Vendor loan - Australian disbursement funding business (i)	824	1,048
Convertible bonds payable (ii)	3,529	3,696
Lucerne Group combined loan (iii)	8,548	-
Lucerne Group facility - US medical lien funding business (iv)	5,238	-
Lockton insurance financing	49	-
Credit cards	414	-
Other NHF subordinated debt (v)	1,000	-
	<u>19,602</u>	<u>4,744</u>

Refer to note 23 for further information on financial instruments.

*(i) 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 A\$0.14 per share.

*(ii) Convertible bonds payable*

On 15 July 2016, the Company issued 50,000 convertible bonds, each with a face value of A\$100. The total consideration received from the convertible bonds was \$3,695,500 (A\$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 A\$0.30 per ordinary share, or 80% of the issue price of any future equity issued should the issue price be lower than A\$0.30 per ordinary share. The Company undertook a capital raising in November 2018 at A\$0.08 per share. As a result of that capital raising the conversion price of the convertible bonds is now A\$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.



#### Note 17. Current liabilities - borrowings (continued)

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.

##### (iii) 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. Ongoing 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.

##### (iv) Lucerne Group facility - US medical lien funding business

Lucerne Finance Pty Limited and the Principis Master Fund have jointly provided facilities totalling \$5,238,000 to the medical lien funding 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.

##### (v) 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 18. Current liabilities - deferred consideration

	Consolidated	
	31 December 2018 US\$'000	30 June 2018 US\$'000
Deferred consideration	-	370

Deferred consideration relates to the acquisition of the litigation funding portfolio and is payable on the successful resolution of one of the cases within the portfolio.

#### Note 19. Non-current liabilities - borrowings

	Consolidated	
	31 December 2018 US\$'000	30 June 2018 US\$'000
Assetsecure Pty Limited loan (i)	20,028	18,844
Atalaya Capital Management (ii)	39,902	-
NHF Founder Promissory Notes (iii)	9,000	-
Lucerne Group combined loan	-	12,085
Syndicated acquisition facility (iv)	29,644	-
Vendor loan - NHF Founders (v)	12,546	-
	<u>111,120</u>	<u>30,929</u>

**Note 19. Non-current liabilities - borrowings (continued)**

Refer to note 23 for further information on financial instruments.

*(i) Assetsecure Pty Limited ('Assetsecure')*

The loan facility of \$24,703,000 (A\$35,000,000) (30 June 2018: \$25,869,000) (A\$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%.

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.

*(ii) Atalaya Capital Management ('Atalaya')*

The loan facility of \$80,000,000 (30 June 2018: \$N/A) is available to fund the US medical lien funding 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%.

*(iii) NHF Founder Promissory Notes (David Wattel and Mark Siegel)*

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.

*(iv) Syndicated acquisition facility*

The Syndicated acquisition facility of \$29,644,000 (A\$42,000,000) (30 June 2018: \$N/A) was 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% 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).

*(v) Vendor loan - NHF Founders*

A vendor loan facility totalling \$12,546,000 (A\$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 19. Non-current liabilities - borrowings (continued)**

*Financing arrangements*

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

	<b>Consolidated</b>	
	<b>31 December 2018 US\$'000</b>	<b>30 June 2018 US\$'000</b>
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 funding receivables. As at 31 December 2018, \$20,863 could be drawn down as a result of these calculations (30 June 2018: \$37,594).

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

**Note 20. Equity - issued capital**

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

**Note 20. 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	<u>483,635,467</u>		<u>37,649</u>

*Movements in convertible notes*

There was no movement in convertible notes during the financial period ended 31 December 2018.

*Movements in options, performance rights and warrants*

Refer to note 36.

*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.

*Warrants*

Warrants issued on acquisition of NHF 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.

## Note 20. Equity - issued capital (continued)

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 21. Equity - reserves

	Consolidated 31 December 2018 US\$'000	30 June 2018 US\$'000
Foreign currency reserve	2	(557)
Share-based payments reserve	5,996	1,741
	<u>5,998</u>	<u>1,184</u>

### Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements into United States dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

### Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

### Movements in reserves

Movements in reserves during the current and previous financial period are set out below:

Consolidated	Foreign currency US\$'000	Share-based payments US\$'000	Total US\$'000
Balance at 1 July 2017	(405)	1,518	1,113
Foreign currency translation	(152)	-	(152)
Share-based payments	-	223	223
	<u>-</u>	<u>223</u>	<u>223</u>
Balance at 30 June 2018	(557)	1,741	1,184
Foreign currency translation	559	-	559
Share-based payments	-	4,255	4,255
	<u>-</u>	<u>4,255</u>	<u>4,255</u>
Balance at 31 December 2018	<u>2</u>	<u>5,996</u>	<u>5,998</u>

## Note 22. Equity - dividends

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

## Note 23. Financial instruments

### Financial risk management objectives

The Group's principal financial instruments comprise cash and short-term deposits, receivables and payables and its finance facilities.

## Note 23. Financial instruments (continued)

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting its future financial security.

The main risks arising from the Group's financial instruments are market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and currencies and assessments of market forecasts for interest rates and foreign currencies. Ageing analyses and monitoring of receivables using an expected credit loss matrix are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

### Market risk

#### Foreign currency risk

Foreign currency risk arises from investments and borrowings that are denominated in a currency other than the functional currencies of the entities within the Group. These are Australian dollars and United States dollars based on country of operation of the entities within the Group.

In addition, the Group is exposed to non-financial instrument risk on the translation of these entities from their functional currency to the presentation currency of United States dollars. This presentation risk is separate to the foreign currency risk dealt with here.

The Group's does not hedge any foreign currency risks as those currency positions are considered to be long-term in nature.

The carrying amount of the Group's foreign currency denominated financial assets at the reporting date was as follows:

	Assets		Liabilities	
	31 December 2018 US\$'000	30 June 2018 US\$'000	31 December 2018 US\$'000	30 June 2018 US\$'000
<b>Consolidated</b>				
Australian dollars	17,195	22,538	(79,492)	(38,865)
United States dollars	78,931	-	(61,056)	-
	<u>96,126</u>	<u>22,538</u>	<u>(140,548)</u>	<u>(38,865)</u>

The Group had net liabilities denominated in foreign currencies of US\$44,422,000 (US\$96,126,000 less liabilities of US\$140,548,000) as at 31 December 2018 (30 June 2018: net liabilities of US\$16,327,000 (US\$22,538,000 less liabilities of US\$38,865,000)).

Consolidated - 31 December 2018	% change	USD strengthened		% change	USD weakened	
		Effect on profit before tax US'000	Effect on equity US'000		Effect on profit before tax US'000	Effect on equity US'000
Australian dollars	10%	<u>(8,790)</u>	<u>(8,790)</u>	10%	<u>(6,230)</u>	<u>(6,230)</u>
Consolidated - 30 June 2018	% change	USD strengthened		% change	USD weakened	
		Effect on profit before tax '000	Effect on equity '000		Effect on profit before tax '000	Effect on equity '000
Australian dollars	10%	<u>1,484</u>	<u>1,484</u>	10%	<u>(1,633)</u>	<u>(1,633)</u>

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date.

## Note 23. Financial instruments (continued)

### Price risk

The Group is not exposed to any significant price risk.

### Interest rate risk

The Group's main interest rate risk arises from borrowings and cash and cash equivalents. The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market rates and the effective weighted average interest rates on financial liabilities, is as follows:

	31 December 2018 Weighted average interest rate %	31 December 2018 Balance US\$'000	30 June 2018 Weighted average interest rate %	30 June 2018 Balance US\$'000
<b>Consolidated</b>				
Vendor loan - Australian disbursement funding business	7.50%	824	7.50%	1,048
Convertible bonds payable	11.50%	3,529	11.50%	3,696
Lucerne Group combined loan	13.50%	8,548	13.50%	9,868
Lucerne Group - working capital facility	-	-	7.95%	2,217
Lucerne Group facility - US medical lien funding business	15.00%	5,238	-	-
Lockton insurance financing	10.00%	49	-	-
Credit cards	17.86%	414	-	-
Other NHF subordinated debt	12.00%	1,000	-	-
Assetsecure Pty Limited loan	8.95%	20,028	9.76%	18,844
Atalaya Capital Management	14.25%	39,902	-	-
NHF Founder promissory note	-	9,000	-	-
Syndicated acquisition facility	13.00%	29,644	-	-
Vendor loan - NHF Founders	13.00%	12,546	-	-
Cash and cash equivalents	0.04%	(3,696)	0.04%	(934)
Net exposure to cash flow interest rate risk		<u>127,026</u>		<u>34,739</u>

The weighted average interest rate for the period ended 31 December 2018 was 11.93% (Year ended 30 June 2018: 11.56%).

The Group has net interest-bearing liabilities and therefore income and operating cash flows are subject to changes in the market rates. The Group regularly analyses its interest rate exposure. Within this analysis consideration is given to expected interest rate movements and the Group's future cash requirements, potential renewals of existing positions, alternative financing, and the mix of fixed and variable interest rates. A movement in interest rates of +/-100 basis points will result in less than a +/-US\$1,243,000 (2018: US\$475,000) impact on the Group's results and operating cash flows.

### Credit risk

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents and receivables.

Cash and cash equivalents comprise of cash on hand and demand deposits. The Group limits its credit risk by holding cash balances and demand deposits with reputable counterparties with acceptable credit ratings.



**Note 23. Financial instruments (continued)**

Receivables for the disbursement funding division are with registered solicitors as the counterparty. The Group transacts with in excess of 160 law firms and limits its credit risk by ensuring that there is a credit limit applied to any law firm and that settlement funds are deposited into the law firm's trust accounts (which are periodically audited by the Law Society).

Receivables for the short-term loans division are with registered solicitors as the counterparty. The Group limits its credit risk by ensuring that there is a credit limit applied to any law firm. Personal guarantees are obtained from the principals of the firm and the loans are monitored on a monthly basis.

Receivables relating to the litigation funding division are as a result of a funded case concluding. The Group assesses the defendants in the matters funded by the Group prior to entering into any agreement to provide funding and continues this assessment during the course of funding. The Group's continual monitoring of the defendants' financial capacity mitigates this risk.

Receivables for the US medical lien funding division are held with licensed lawyers who have a fiduciary duty to protect the Receivable. The Group transacts with in excess of 1,060 law firms and limits its credit risk by ensuring that the lawyer has a valid and active license to practice law in their respective state. Settlement funds are required to be deposited into the law firm's trust accounts where State Bar rules and regulations apply, protecting the funds from mismanagement.

**Liquidity risk**

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet the Group's expected financial commitments in a timely and cost effective manner.

Management continually reviews the Group's liquidity position, including the preparation of cash flow forecasts, to determine the forecast liquidity position and to maintain appropriate liquidity levels.

The liquidity risk for the Group is the ability to raise equity or debt financing in the future. This risk is mitigated by the headroom available from the following facilities:

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Assetsecure Pty Limited loan (subject to certain calculations, see note 19)	4,675	7,025
Atalaya Capital Management (subject to certain calculations, see note 19)	40,098	-
Lucerne Group combined loan	-	444
	<b>44,773</b>	<b>7,469</b>

**Note 23. Financial instruments (continued)**

*Remaining contractual maturities*

The following are the remaining contractual maturities as at the reporting date. The amounts are gross and undiscounted and include contractual interest payments and exclude the impact of netting agreements.

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
<b>Consolidated - 31 December 2018</b>	%	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	7,657	-	-	-	7,657
<i>Interest-bearing</i>						
Vendor loan - Australian disbursement funding business	7.50%	855	-	-	-	855
Convertible bonds payable	11.50%	3,983	-	-	-	3,983
Lucerne Group combined loan	13.50%	9,702	-	-	-	9,702
Lucerne Group facility - US medical lien funding business	15.00%	5,435	-	-	-	5,435
Other NHF subordinated debt	12.00%	-	-	1,600	-	1,600
Assetsecure Pty Limited loan	8.95%	1,793	21,374	-	-	23,167
Atalaya Capital Management	14.25%	5,301	5,287	41,568	-	52,156
NHF Founder Promissory Notes	-	-	9,000	-	-	9,000
Syndicated acquisition facility	13.00%	3,854	3,864	36,348	-	44,066
Vendor loan - NHF Founders	13.00%	1,631	1,635	15,384	-	18,650
Lockton insurance financing	10.00%	53	-	-	-	53
Credit cards	17.86%	455	-	-	-	455
Total non-derivatives		40,719	41,160	94,900	-	176,779
	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
<b>Consolidated - 30 June 2018</b>	%	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	2,059	-	-	-	2,059
Deferred consideration	-	370	-	-	-	370
<i>Interest-bearing</i>						
Vendor loan - Australian disbursement funding business	7.50%	1,068	-	-	-	1,068
Convertible bonds payable	11.50%	4,013	-	-	-	4,013
Lucerne Group combined loan	13.50%	1,332	10,540	-	-	11,872
Lucerne Group - working capital facility	7.95%	176	2,312	-	-	2,488
Assetsecure Pty Limited loan	9.76%	1,687	1,691	19,269	-	22,647
Total non-derivatives		10,705	14,543	19,269	-	44,517

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

## Note 24. 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 - disbursement funding/medical lien funding	-	-	101,372	101,372
Total assets	-	-	101,372	101,372

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 - disbursement funding	-	-	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 a qualified 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 24. Fair value measurement (continued)**

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

<b>Consolidated</b>	<b>Fair value US\$'000</b>	<b>Deferred day 1 margin US\$'000</b>	<b>Total US\$'000</b>
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 31)	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	(1,054)	146	(908)
Balance at 31 December 2018	<u>101,372</u>	<u>(4,474)</u>	<u>96,898</u>

This reconciliation excludes other receivables and short-term loans.

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

**Note 25. Key management personnel disclosures**

*Compensation*

The aggregate compensation made to directors and other members of key management personnel ('KMP') of the Group is set out below:

	<b>Consolidated 6 months 31 December 2018 US\$</b>	<b>12 months 30 June 2018 US\$</b>
Short-term employee benefits	776,612	1,355,321
Post-employment benefits	23,827	49,209
Share-based payments	-	222,983
	<u>800,439</u>	<u>1,627,513</u>

The above figures include amounts paid to companies related to directors for the service and/or director fees payable to directors.

## Note 26. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by Stantons International ('Stantons'), the auditor of the company, and Spielman Koenigsberg & Parker, LLP ('SKP'), the auditor of NHF:

	Consolidated 6 months 31 December 2018 US\$	12 months 30 June 2018 US\$
<i>Audit services - Stantons</i>		
Audit or review of the financial statements	125,580	95,932
<i>Other services - Stantons</i>		
Preparation of the Investigating Accountant's Report	41,559	-
Other accounting services	6,547	-
	48,106	-
	<u>173,686</u>	<u>95,932</u>
<i>Audit services - SKP</i>		
Audit or review of the financial statements	<u>100,965</u>	<u>-</u>

## Note 27. Contingent liabilities

### Bank guarantees

The Group has given bank guarantees as at 31 December 2018 of \$112,000 (30 June 2018: \$117,000) 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 \$5,750,000 (30 June 2018: \$8,780,000). The potential adverse costs orders using the above methodology would amount to \$3,883,000 (30 June 2018: \$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.

### 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 A\$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.

## Note 27. Contingent liabilities (continued)

### *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.

### *Litigation against NHF*

Two separate proceedings were commenced against NHF in Florida in 2017. These proceedings relate to a failed medical practice which sold various medical invoices to NHF. The proceedings are being defended as the medical invoices purchased were on an arm's length basis and are subject to a contract entered into with the now bankrupt medical practice. As such, NHF believes there are no amounts payable to the medical practice or its creditors.

## Note 28. Commitments

	Consolidated	
	31 December 2018 US\$'000	30 June 2018 US\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	312	276
One to five years	209	-
	<u>521</u>	<u>276</u>

Operating lease commitments includes contracted amounts for offices under non-cancellable operating leases expiring within one year with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

## Note 29. Related party transactions

### *Parent entity*

LawFinance Limited is the parent entity.

### *Subsidiaries*

Interests in subsidiaries are set out in note 32.

### *Key management personnel*

Disclosures relating to key management personnel are set out in note 25 and the remuneration report included in the directors' report.

**Note 29. Related party transactions (continued)**

*Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>6 months</b>	<b>12 months</b>
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$</b>	<b>US\$</b>
Other related parties - expenses:		
Lucerne Group - interest on borrowings	946,158	1,565,850
Lucerne Group - facility fees	-	150,489
Lucerne Group - underwriting fees	-	132,861
Multus Medical LLC - cost of sales	6,850	-
David Wattel - interest on vendor loan	208,140	-
Mark Siegel - interest on vendor loan	208,140	-
Other related parties - income:		
Multus Medical LLC - office rental	17,500	-
Multus Medical LLC - staff and administration costs	6,178	-
Wattel & York - staff costs	3,385	-

Lucerne Group manages funds on behalf of third parties. Anthony Murphy is the Chief Executive Officer of Lucerne Investment Partners, part of the Lucerne Group.

David Wattel is a director of Multus Medical LLC, a company that specialises in creating 3-Dimensional anatomical schematics from standardised MRI data – this company provides services to patients to assist in their personal injury insurance claims, and NHF fund the cost of these services. David is also a founding member of Wattel & York – Attorneys at Law, a personal injury and property damage law firm.

*Receivable from and payable to related parties*

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$</b>	<b>US\$</b>
Current receivables from other related parties:		
Multus Medical LLC	44,955	-
Current payables to other related parties:		
Lucerne Group	225,813	123,988
Wattel & York	3,704	-
David Wattel	208,140	-
Mark Siegel	208,140	-

*Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date, except for the facilities with the Lucerne Group as detailed in note 19.

*Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates.



### Note 30. Parent entity information

Set out below is the supplementary information about the parent entity.

#### Statement of profit or loss and other comprehensive income

	Parent 6 months 31 December 2018 US\$'000	Parent 12 months 30 June 2018 US\$'000
Loss after income tax	(8,060)	(5,980)
Total comprehensive loss	(8,060)	(5,980)

#### Statement of financial position

	Parent 31 December 2018 US\$'000	Parent 30 June 2018 US\$'000
Total current assets	519	574
Total assets	78,087	23,213
Total current liabilities	15,222	5,757
Total liabilities	57,412	17,843
Net assets	20,675	5,370
Equity		
Issued capital	37,649	18,421
Foreign currency reserve	(3,591)	(3,473)
Share-based payments reserve	5,996	1,741
Accumulated losses	(19,379)	(11,319)
Total equity	20,675	5,370

#### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Except as described in note 27, the parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2018 and 30 June 2018.

#### Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2018 and 30 June 2018 other than those disclosed in note 27.

#### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2018 and 30 June 2018.

#### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

### Note 31. 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 funding 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\$36,345,000 represents the strong brand associated with NHF, reflected in its large book of receivables (over 33,000 active matters). An amount of US\$1,913,000 was attributed to existing long-term working relationships with NHF's network of attorneys and medical providers of over 3,000. The effective date of control of NHF was 1 October 2018.

AASB 3 Business Combinations allow 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.

Details of the acquisition are as follows:

	Fair value US\$'000
Cash and cash equivalents	5,081
Trade receivables - medical lien funding	76,003
Other assets	180
Plant and equipment	157
Trade and other payables	(5,386)
Notes payables	(20,703)
Financing facility	(39,687)
Non-controlling interest	(903)
	<hr/>
Net assets acquired	14,742
Customer relationships	1,913
Goodwill	36,345
	<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
Pre-acquisition loan provided to NHF at acquisition	5,603
	<hr/>
Net cash used	32,601
	<hr/>

## Note 32. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2018 %	30 June 2018 %
JustKapital Financing Pty Limited	Australia	100.00%	100.00%
JustKapital Litigation Pty Limited	Australia	100.00%	100.00%
JustKapital Litigation Insurance Pty Limited	Australia	100.00%	100.00%
JustKapital Co-Funding No 1 Pty Limited	Australia	100.00%	100.00%
JustKapital Portfolio Pty Limited	Australia	100.00%	100.00%
JustKapital STL Pty Limited	Australia	100.00%	100.00%
JustKapital NHF USA Holdings, LLC	USA	100.00%	100.00%
JustKapital NHF Holdings Pty Limited	Australia	100.00%	100.00%
National Health Finance HoldCo, LLC*	USA	100.00%	-
JustKapital Litigation Partners (NZ) Limited**	New Zealand	100.00%	100.00%
JustKapital Insolvency Services Pty Limited***	Australia	100.00%	100.00%
LongKapital Pty Limited***	Australia	100.00%	100.00%
JustKapital No 1 Pty Limited***	Australia	100.00%	100.00%
MML Services Pty Limited***	Australia	100.00%	100.00%
Subsidiaries of National Health Finance HoldCo, LLC:			
Accident Medical Funding, LLC*	USA	70.00%	-
Apex Injury Network, LLC*	USA	75.00%	-
Arizona Injury Medical Specialists, LLC*	USA	75.00%	-
Atlanta Health Funding, LLC*	USA	75.00%	-
Auto Medical Funding, LLC*	USA	75.00%	-
Balboa Medical Funding, LLC*	USA	75.00%	-
Bay Area Medical Finance, LLC*	USA	74.00%	-
Bayou Health Finance, LLC*	USA	75.00%	-
California Health Finance, LLC*	USA	50.50%	-
Complete Health Network, LLC*	USA	48.50%	-
Desert Sky Medical Funding, LLC*	USA	75.00%	-
DFW Medical Finance, LLC*	USA	90.50%	-
Fresno Injury Treatment Network, LLC*	USA	72.50%	-
Georgia Injury Treatment Network, LLC*	USA	70.00%	-
Great Salt Lake Medical Finance, LLC*	USA	88.00%	-
HALO Medical Funding, LLC*	USA	75.00%	-
Illinois Injury Solutions, LLC*	USA	75.00%	-
Injury Medical Network, LLC*	USA	67.00%	-
Kentucky Injury Network, LLC*	USA	75.00%	-
Louisiana HealthNet Solutions, LLC*	USA	73.00%	-
Lone Star Lien Solutions, LLC*	USA	55.00%	-
Medical Financial Group, LLC*	USA	70.00%	-
Metroplex Medical Finance, LLC*	USA	70.00%	-
Nashville Injury Network, LLC*	USA	75.00%	-
National Health Finance DM, LLC*	USA	100.00%	-
National Health Finance of Florida, LLC*	USA	100.00%	-
National Health Finance of Florida 2, LLC*	USA	60.80%	-
National Medical Finance & Assistance, LLC*	USA	100.00%	-

**Note 32. Interests in subsidiaries (continued)**

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2018 %	30 June 2018 %
Southern California Injury Treatment Network, LLC*	USA	99.00%	-
Nevada Health Finance, LLC*	USA	60.00%	-
New Mexico Health Finance, LLC*	USA	68.00%	-
New Mexico Medical Financing, LLC*	USA	49.00%	-
North Texas Medical Finance, LLC*	USA	69.00%	-
Northern Florida Medical Finance, LLC*	USA	88.00%	-
Nevada Orthopedic and Spinal Financing, LLC*	USA	75.00%	-
NW Health Network, LLC*	USA	66.00%	-
Oklahoma Health Finance, LLC*	USA	83.00%	-
Oklahoma Injury Network, LLC*	USA	70.00%	-
Old Pueblo Medical Financing, LLC*	USA	50.00%	-
ONYX Medical Funding Group, LLC*	USA	70.00%	-
Pikes Peak Medical Funding, LLC*	USA	72.50%	-
Rocky Mountain Medical Finance, LLC*	USA	71.00%	-
Silver State Surgical Solutions, LLC*	USA	80.00%	-
SMD Medical Finance, LLC*	USA	68.00%	-

\* Acquired on 28 September 2018.

\*\* Dormant

\*\*\* Entities placed into members voluntary liquidation on 21 September 2018, as they did not trade.

**Note 33. Reconciliation of loss after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>6 months</b>	<b>12 months</b>
	<b>31 December</b>	<b>30 June</b>
	<b>2018</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Loss after income tax benefit for the period	(11,427)	(5,142)
Adjustments for:		
Depreciation and amortisation	82	78
Share-based payments	27	223
Employee leave provision	21	26
Interest	(94)	(146)
Commissions payable	71	164
Write off of acquisition costs of litigation assets	925	-
Impairment of assets	2,765	808
Warrant costs	3,156	-
Net foreign exchange differences	636	678
Change in operating assets and liabilities:		
Increase in loan and other receivables	(797)	(3,655)
Decrease/(increase) in deferred tax assets	2,159	(467)
Decrease in prepayments	15	76
Increase in trade and other payables	8,457	11,126
Increase/(decrease) in provisions or employee benefits	118	(364)
Net cash from operating activities	<u>6,114</u>	<u>3,405</u>

**LawFinance Limited (formerly JustCapital Limited)**

**Notes to the financial statements**

**31 December 2018**

**Note 34. Changes in liabilities arising from financing activities**

<b>Consolidated</b>	Asset-secure Pty Limited loan US\$'000	Lucerne Composite Master Fund loan US\$'000	Lucerne Finance Pty Limited short-term loan US\$'000	Lucerne Group combined loan US\$'000	Lucerne Group – working capital facility US\$'000	Vendor loan US\$'000	Convertible bonds payable US\$'000	Total US\$'000
Balance at 1 July 2017	15,679	3,846	5,384	-	-	1,846	3,846	30,601
Lucerne loans combined	-	(3,771)	(5,279)	9,050	-	-	-	-
Loans received	10,662	-	-	1,012	2,169	-	-	13,843
Loans repaid	(7,677)	-	-	(35)	-	(741)	-	(8,453)
Exchange differences	180	(75)	(105)	(159)	48	(57)	(150)	(318)
Balance at 30 June 2018	18,844	-	-	9,868	2,217	1,048	3,696	35,673
Conversion to shares	-	-	-	(1,331)	(361)	-	-	(1,692)
Loans received	5,919	-	-	438	-	-	-	6,357
Loans repaid	(3,840)	-	-	-	(1,807)	(181)	-	(5,828)
Exchange differences	(895)	-	-	(427)	(49)	(43)	(167)	(1,581)
Balance at 31 December 2018	<u>20,028</u>	<u>-</u>	<u>-</u>	<u>8,548</u>	<u>-</u>	<u>824</u>	<u>3,529</u>	<u>32,929</u>
<b>Consolidated</b>	Syndicated acquisition facility US\$'000	Vendor loan - NHF Founders US\$'000	Atalaya Capital Management US\$'000	Other NHF subordinated debt US\$'000	NHF Founder Promissory Notes US\$'000	Lucerne Group facility US\$'000	Lockton insurance financing and other US\$'000	Total US\$'000
Balance at 1 July 2017	-	-	-	-	-	-	-	-
Balance at 30 June 2018	-	-	-	-	-	-	-	-
Changes through business combinations (note 31)	-	-	39,687	1,000	9,000	5,100	335	55,122
Loans received	30,546	12,434	4,912	-	-	-	518	48,410
Loans repaid	-	-	(4,697)	-	-	-	(390)	(5,087)
Capitalised interest	-	416	-	-	-	138	-	554
Exchange differences	(902)	(304)	-	-	-	-	-	(1,206)
Balance at 31 December 2018	<u>29,644</u>	<u>12,546</u>	<u>39,902</u>	<u>1,000</u>	<u>9,000</u>	<u>5,238</u>	<u>463</u>	<u>97,793</u>

**Note 35. Earnings per share**

	Consolidated 6 months 31 December 2018 US\$'000	12 months 30 June 2018 US\$'000
Loss after income tax	(11,427)	(5,142)
Non-controlling interest	200	-
Loss after income tax attributable to the owners of LawFinance Limited	<u>(11,227)</u>	<u>(5,142)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>246,301,947</u>	<u>139,611,768</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>246,301,947</u>	<u>139,611,768</u>
	<b>Cents</b>	<b>Cents</b>
Basic loss per share	(4.56)	(3.68)
Diluted loss per share	(4.56)	(3.68)

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 period.

**Note 36. Share-based payments**

*Share options*

At the 2016 Annual General Meeting held on 30 November 2016, shareholders approved for the Company to adopt the JKL Incentive Plan ('Incentive Plan') and associated Non-Recourse Loan Agreements for directors, officers, employees and consultants ('Participants'). The Incentive Plan, effective from 1 July 2016, replaced the previous Incentive Option Plan and Executive Incentive Plans ('EIP').

The objectives of the Incentive Plan are to:

- supplement Participant remuneration;
- ensure that the Group's remuneration policy is competitive in retaining and motivating the Participants;
- provide a mechanism for achieving the Group's overarching remuneration objective of aligning the interests of Participants and shareholders; and
- reward Participants based on the Group's overall performance including achieving successful judgements or settlements of individual cases, growth of the disbursements funding business (JustKapital Finance) and other businesses and high performance.

Set out below are summaries of options granted under the plans:

31 December  
2018

Grant date	Expiry date	Exercise price*	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
22/01/2016	22/01/2019	US\$0.176	1,500,000	-	-	-	1,500,000
			<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
Weighted average exercise price			US\$0.176	US\$0.000	US\$0.000	US\$0.000	US\$0.176



**Note 36. Share-based payments (continued)**

\* Exercise price - A\$0.25

These options lapsed at their expiry date, and were not exercised.

30 June  
2018

Grant date	Expiry date	Exercise price*	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
10/03/2015	10/03/2018	US\$0.176	1,200,000	-	-	(1,200,000)	-
10/03/2015	10/03/2018	US\$0.176	1,195,673	-	-	(1,195,673)	-
10/03/2015	10/03/2018	US\$0.176	4,000,000	-	-	(4,000,000)	-
27/03/2015	27/03/2018	US\$0.176	398,558	-	-	(398,558)	-
27/03/2015	27/03/2018	US\$0.176	1,500,000	-	-	(1,500,000)	-
22/01/2016	22/01/2019	US\$0.176	1,500,000	-	-	-	1,500,000
			9,794,231	-	-	(8,294,231)	1,500,000
Weighted average exercise price			US\$0.176	US\$0.000	US\$0.000	US\$0.176	US\$0.176

\* Exercise price - A\$0.25

The weighted average share price during the financial period was US\$0.052 (30 June 2018: US\$0.074).

The weighted average remaining contractual life of options outstanding at the end of the financial period was 0.06 years (30 June 2018: 0.56 years).

*Performance rights*

Set out below are summaries of performance rights granted under the plan:

31 December  
2018

Grant date	Vesting date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
30/11/2016	30/06/2018	US\$0.000	1,264,569	-	(1,264,569)	-	-
			1,264,569	-	(1,264,569)	-	-

30 June  
2018

Grant date	Vesting date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
30/11/2016	30/06/2018	US\$0.000	4,679,664	-	(3,248,505)	(166,590)	1,264,569
			4,679,664	-	(3,248,505)	(166,590)	1,264,569

The weighted average remaining contractual life of performance rights outstanding at 30 June 2018 was nil months.

**Note 36. Share-based payments (continued)**

*Warrants*

Set out below are summaries of warrants granted on acquisition of NHF:

31 December  
2018

Grant date	Expiry date	Exercise price*	Balance at the start of the period	Granted**	Exercised	Expired/ forfeited/ other	Balance at the end of the period
28/09/2018	28/09/2022	US\$0.099	-	452,743,636	-	-	452,743,636
			-	452,743,636	-	-	452,743,636

\* Exercise price - A\$0.14

\*\* 329,880,000 warrants issued to other Syndicated Acquisition Facility participants and 122,863,636 warrants issued to NHF Founders.

The weighted average remaining contractual life of warrants outstanding at the end of the financial period was 3.75 years.

For the warrants granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date*	Exercise price**	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
28/09/2018	28/09/2022	US\$0.056	US\$0.099	40.00%	-	2.08%	US\$0.000

\* Share price at grant date - A\$0.08

\*\* Exercise price - A\$0.14

*Shares issued*

During the period the Company issued 1,250,000 shares to Diane Jones in lieu of part of her short-term incentive granted during the period. The shares were issued at US\$0.058 cents per share as part of the rights issue undertaken by the Company on 7 November 2018 (Refer to note 20).

During the period the Company issued 29,266,700 to Lucerne at US\$0.058 cents per share as part of the share placement undertaken by the Company on 7 November 2018 (Refer to note 20).

**Note 37. Events after the reporting period**

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**LawFinance Limited (formerly JustKapital Limited)**

**Directors' declaration**

**31 December 2018**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



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Tim Storey  
Chairman

29 March 2019  
Sydney

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
LAWFINANCE LIMITED**

**Report on the Audit of the Financial Report**

***Opinion***

We have audited the financial report of LawFinance Limited, the Company and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

***Basis for Opinion***

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key Audit Matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key Audit Matters

## How the matter was addressed in the audit

### Going Concern

In considering the going concern basis of accounting, management considered whether there are any material uncertainties on the Group's ability to continue as a going concern. In making this assessment management need to consider the period of at least 12 months from the date our audit opinion is signed.

The assessment is largely based on the assumptions made by the management in their cash flow forecasts. These forecasts include management and directors' assumptions regarding the timing of future cash flows, variations to or extensions of current financing facilities, operating results, capital raising activities (if any) and future settlement of litigation funding cases.

This is a key audit matter due to the nature of the business, its dependence on the timing of future cashflows, support from financiers and its ability to raise additional funds, as well as the Group's history of operating losses and negative cashflows.

Inter alia, our audit procedures included the following:

- i. Obtaining and reviewing management's cash flow forecasts to assess whether current cash levels and proposed capital management initiatives can sustain operations for a period of at least 12 months from the proposed date of signing the financial statements;
- ii. Reviewing the assumptions used by management in the going concern forecasts for reasonableness and challenging these where necessary;
- iii. Corroborating, where possible, management's assumptions in relation to its cash flow forecasts, including enquiry, verifications of and discussions pertaining to these assumptions; and
- iv. Assessing the adequacy of the Group's related disclosures within the financial report.

### Acquisition of National Health Finance Holdco LLC /Impairment of Goodwill and Other Intangibles

On 28 September 2018, JustKapital NHF USA Holdings, LLC, a wholly owned subsidiary of LawFinance Limited, acquired 100% of the ordinary share capital of National Health Finance Holdco LLC ("NHF"). The acquisition resulted in the Group recognising \$38,258,000 of goodwill on acquisition for its US medical lien Cash Generating Unit (CGU).

The Group carries Goodwill of \$42,452,000 (refer to Note 14) and Other Intangibles of \$6,871,000 (refer to Note 15), as per the application of the Group's accounting policy for Intangible assets, set out in Note 2.

The carrying value of Goodwill and Other Intangibles is a key audit matter due to:

- The significance of the total balance of both Goodwill and Other Intangibles combined (approximately 31% of total assets);
- For the Cash Generating Unit (CGU's) which contain goodwill, the determination of recoverable amount, being the higher of fair value less costs to sell and value-in-use, requires judgement on the part of management in both identifying and then valuing the relevant CGU's;
- Litigation contracts, and their impact upon the future cash flows meeting the Group's expectations;
- The assessment of impairment of the Group's Goodwill and Other Intangibles balances incorporated significant judgement in respect of factors such as discount rates and growth rates; and
- Goodwill is also considered to be a key audit matter as the Group's value in use model for impairment included appropriate consideration of these factors on their significant estimates and judgements and the selection of key external and internal inputs.

Inter alia, our audit procedures included the following:

- i. The assessment of management's determination of the Group's CGUs based on our understanding of the nature of the Group's Business and economic environment in which the segments operate. We also analysed the internal reporting of the Group to assess how earnings streams are monitored and reported;
- ii. The evaluation of management's process regarding valuation of the Group's goodwill assets to determine any potential asset impairment. We tested management's models, such as the preparation and review of forecasts;
- iii. The audit of the Group's assumptions and estimates used to determine the recoverable value of its assets, including those relating to forecasted revenue, costs, growth in the receivables book and discount rates used;
- iv. Checking the cash flow models and corroboration of underlying data; and
- v. Performing sensitivity analysis in the main areas. These included the appropriateness of the discount rate used and growth assumptions for the CGUs with a higher risk of impairment.

***Carrying Value of Disbursement receivables – Current  
\$27,460,000 and Non-Current \$69,438,000***

As discussed in Note 2 of the financial report the Group has adopted AASB 15 (Revenue from Contracts with Customers). As a result of this adoption, the Group concluded the funding provided by its disbursement funding arrangements does not meet the definition of a contract with a customer under AASB 15 and concluded that the income arising from changes in the fair value of financial instruments is within the scope of AASB 9 (Financial Instruments).

The key elements of judgement associated with the application is the calculation of the fair value and day 1 margin and its adjustment to the carrying value of the disbursement receivables (both current and non-current).

This area is a key audit matter due to the significance of the total balance (approximately 60% of total assets) as well as the inherent subjectivity that is involved in the Group making judgements as discussed in the paragraph above.

Inter alia, our audit procedures included the following:

- i. Review the Group's new accounting policy and its compliance with AASB 9;
- ii. Obtained a copy of the valuation report compiled by an independent expert on the fair value and carrying value of the disbursement receivables. Audited the assumptions within the report and questioned the expert on the validity of those assumptions;
- iii. Testing key controls, approval processes, and performing debtor circularisations on a sample of disbursement receivables;
- iv. Reviewing management's assumptions in splitting of current and non-current disbursement receivables; and
- v. Assessing the adequacy of the Group's disclosures in the financial report.

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***Valuation of Deferred Tax assets \$6,789,000***

The group has recognised a significant amount of deferred tax assets \$6,789,000, mainly resulting from net operating losses. The risk exists that future profits will not be sufficient to fully recover the deferred tax assets.

Management supports the recoverability of the deferred tax assets by the income projections which include estimates of, and tax strategies for, future taxable income. Changes in the business and its markets and changes in regulations may impact these projections.

This area is a key audit matter as the valuation of deferred tax assets required an assessment process is subjective and is based on estimates of future taxable income.

Inter alia, our audit procedures included the following:

- i. Auditing the work of tax specialists in assessing the appropriateness of the level of the deferred tax asset balance recognised in the balance sheet;
- ii. Auditing the forecasts and critically assessing the assumptions and judgments included in these forecasts by considering the historical accuracy of forecasts;
- iii. Reviewing management's key assumptions; and
- iv. Assessing the adequacy of the Group's disclosures in respect of the deferred tax assets.

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***Other Information***

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### ***Responsibilities of the Directors for the Financial Report***

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### ***Auditor's Responsibilities for the Audit of the Financial Report***

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in Internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

### ***Opinion on the Remuneration Report***

We have audited the Remuneration Report included in pages 8 to 16 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of LawFinance Limited for the year ended 31 December 2018 complies with section 300A of the Corporations Act 2001.

### ***Responsibilities***

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**  
**(Trading as Stantons International)**  
**(An Authorised Audit Company)**

*Stantons International Audit & Consulting Pty Ltd*



**Martin Michalik**  
Director

West Perth, Western Australia  
29 March 2019



**LawFinance Limited (formerly JustKapital Limited)**  
**Shareholder information**  
**31 December 2018**

The shareholder information set out below was applicable as at 25 March 2019.

**Distribution of equitable securities**

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	2,070	-
1,001 to 5,000	142	-
5,001 to 10,000	87	-
10,001 to 100,000	284	-
100,001 and over	153	-
	<u>2,736</u>	<u>-</u>
Holding less than a marketable parcel	<u>2,243</u>	<u>-</u>

**Equity security holders**

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares Number held	% of total shares issued
Mr Mark Siegel	107,548,702	22.24
Mr David Wattel	107,548,701	22.24
Washington H Soul Pattinson & Company Limited	43,750,000	9.05
Citicorp Nominees Pty Limited	42,411,334	8.77
National Nominees Limited	35,193,263	7.28
Mr John Herbert Bannister	15,846,390	3.28
Litigation Management Pty Limited	7,333,333	1.52
Prolex Holdings Limited (PHL A/C)	5,218,059	1.08
Wattle Laboratories Pty Limited (Advanced Culture Systems A/c)	4,800,000	0.99
BNP Paribas Noms Pty Ltd (IB AU Noms Retail Client DRP)	4,488,552	0.93
Barbright Australia Pty Ltd (Interquartz Super Fund A/C)	3,899,146	0.81
Alpha Bronte Pty Limited (The Bronte Carlo A/c)	3,500,000	0.72
Mr Jason Maxwell Yu	3,175,000	0.66
Onmell Pty Ltd (ONM BPSF A/C)	2,800,000	0.58
Diane Lesley Jones	2,688,732	0.56
Mr Ping Kin Yu & Mrs Wai Ying Elsa Yu (PK and Elsa Super Fund A/c)	2,600,000	0.54
Mr Alistair David Strong	2,600,000	0.54
Garrett Smythe Limited	2,566,568	0.53
BT Portfolio Services Limited	2,450,928	0.51
Mrs Adele Whyte	2,266,667	0.47
	<u>402,685,375</u>	<u>83.30</u>

*Unquoted equity securities (options)*

There are no unquoted equity securities.

**LawFinance Limited (formerly JustKapital Limited)**  
**Shareholder information**  
**31 December 2018**

**Substantial holders**

Substantial holders in the Company are set out below:

	Ordinary shares % of total shares issued
Number held	
Mr Mark Siegel	107,548,702 22.24
Mr David Wattel	107,548,701 22.24
Washington H Soul Pattinson & Company Limited	43,750,000 9.05
Citicorp Nominees Pty Limited	42,411,334 8.77
National Nominees Limited	35,193,263 7.28

**Voting rights**

The voting rights attached to ordinary shares are set out below:

*Ordinary shares*

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.

**Warrants**

Details	Number of warrants
Warrants issued to other Syndicated Acquisition Facility participants	329,880,000
Warrants issued to NHF Founders	122,863,636
	<u>452,743,636</u>

**Securities subject to voluntary escrow**

Details	Number of shares
Escrowed related party vendor shares related to the purchase of the Litigation funding portfolio	7,333,333
Escrowed director and NHF Founders shares related to the purchase of NHF	215,097,403
	<u>222,430,736</u>