LawFinance Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	LawFinance Limited
ABN:	72 088 749 008
Reporting period:	For the year ended 31 December 2019
Previous period:	For the six months ended 31 December 2018

2. Results for announcement to the market

				US$'000
Revenues from ordinary activities	down	3%	to	2,273
Total comprehensive loss for the Group	down	97%	to	(296)
Loss from ordinary activities after tax attributable to the owners of LawFinance Limited	down	96%	to	(451)
Loss for the period attributable to the owners of LawFinance Limited	down	96%	to	(451)

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 12 months ended 31 December 2019. The comparative accounting period is for the 6 months ended 31 December 2018, therefore the results are not directly comparable.

The Group has adopted Accounting Standard AASB 16 'Leases' during the year ended 31 December 2019 using the modified retrospective approach and as such comparatives have not been restated. Refer to note 2 for further information.

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

Comments
The last twelve months has been a transformational year for the Company as management focused on the operational challenges of integrating and operationally improving, the very substantial National Health Finance acquisition. This work has largely been completed and has led to a material improvement in the way the business is managed, and the returns being generated from the capital being deployed.

Due to the current accounting methodology, much of the economic returns to the Group from originations are not yet apparent in the consolidated statement of profit and loss. This is exemplified by the fact that during the period under review the Company reported just US$2,273,000 in revenue, compared to US$33,060,000 in cash collections from customers.

The Board and management remain convinced of the profound opportunity the US medical lien market represents. The balance sheet reorganisation, which commenced in December 2019 and which should be completed in March 2020, will afford the Company the financial firepower required to vigorously pursue this multi-billion dollar segment of the medical claims market in the US.

Details of the various balance sheet initiatives are summarised in the Subsequent Events section of this report and in detail in the Notice of Extraordinary Meeting of Shareholders, released to the ASX on 7 February 2020.

The Group achieved a substantial improvement in performance over the last financial year. The total comprehensive loss for the Group for the year ended 31 December 2019 amounted to US$296,000 (six months period ended 31 December 2018: loss of US$10,868,000).

The loss attributable to the owners of the Group after providing for income tax and non-controlling interest, for the year ended 31 December 2019 amounted to US$451,000 (six months period ended 31 December 2018: loss of US$11,227,000).

The loss in the period mainly relates to the initial impact to the NHF business due to the application of the accounting standards (in particular, AASB 9 'Financial Instruments') which defers Net income from disbursement funding/medical lien funding and is not an accurate reflection of its expected future performance. NHF contributed a loss before tax of US$7,189,000 in the period (six months period ended 31 December 2018: loss of US$2,865,000).

The Statement of Financial Position (Balance Sheet) reflects a carrying value of the Loan receivables of US$98,673,000. There is also an estimated US$10,898,000 classified as “unrecognised day 1 margin” and US$15,986,000 classified as “fair value” under AASB 9, both of which represent future profit to be recognised in the Statement of profit or loss.

The Group’s exit from the litigation funding business is expected to be completed within the next 12 months as the cases that are currently funded are completed. This is expected to provide significant capital inflows as the portfolio of cases are finalised.

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3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(5.10)	(6.72)

Net tangible assets exclude right-of-use assets and the corresponding lease liabilities.

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4. Control gained over entities

Affiliate	Date of acquisition	%
East Bay Medical Finance, LLC	08/02/2019	72.50%
Florida Healthcare Finance, LLC	25/01/2019	75.00%
Healthcare Affiliates of Florida, LLC	13/03/2019	75.00%
Nevada Medical Concierge Services, LLC	27/02/2019	75.00%
Pennsylvania Healthcare Finance, LLC	25/04/2019	70.00%
San Fernando Injury Network, LLC	26/03/2019	75.00%
Smash Medical Funding, LLC	11/01/2019	75.00%
Top Tier Injury Solutions, LLC	01/03/2019	75.00%

The above affiliates were added during the current reporting period, and form part of the NHF business.

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5. Loss of control over entities

Company name	ACN	Country of incorporation
JustKapital Litigation Partners (NZ) Limited*	N/A	New Zealand
JustKapital Insolvency Services Pty Limited**	619 442 670	Australia
JustKapital No 1 Pty Limited**	168 198 472	Australia
LongKapital Pty Limited**	606 427 374	Australia
MML Services Pty Limited***	609 165 817	Australia

* Application for voluntary liquidation on 28 November 2019
** Deregistered on 1 May 2019
*** Deregistered on 4 June 2019

6. Dividends

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

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

The Group has a joint operation with Longford Capital Management LP ('Longford Capital') where the Group co-invests with Longford Capital in litigation funding. The joint operation is funding one case in the United States on a 50:50 basis. The Group is entitled to its proportionate share of the income received from Litigation Contracts in progress and bears a proportionate share of the joint operations' costs of investment in cases. The total investment by the Group in the joint operation at 31 December 2019 was US$1,157,000 (31 December 2018: US$1,166,000). Longford Capital and the Group are also co-funding six cases in Australia on a 50:50 basis with four of these cases now completed. The total investment by the Group in all co-funded cases in Australia as at 31 December 2019 was US$2,104,000 (31 December 2018: US$2,568,000).

9. Foreign entities

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

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

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Preliminary Financial Report of LawFinance Limited for the year ended 31 December 2019 is attached.

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12. Signed

Signed ______________________________ Date: 28 February 2020

Tim Storey
Chairman
Sydney

LawFinance Limited

ABN 72 088 749 008

Preliminary Financial Report - 31 December 2019

LawFinance Limited
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31 December 2019

LawFinance Limited
Consolidated statement of profit or loss and other comprehensive income
For the period ended 31 December 2019

	Note	Consolidated 12 months 31 December 2019 US$'000	Consolidated 6 months 31 December 2018 US$'000
Revenue			
Net income from disbursement funding/medical lien funding		1,612	2,149
Other revenue	4	661	192
Total revenue		2,273	2,341
Non-supplier related cost of sales		206	(278)
Gross margin		2,479	2,063
Other income	5	582	1,744
Foreign exchange gain		5	590
Expenses			
Fair value gain on financial liabilities	6	20,828	-
Employee benefits expense	6	(5,760)	(1,727)
Depreciation and amortisation expense	6	(591)	(82)
Impairment of assets	11	(458)	(2,765)
Administration and other expenses	6	(3,210)	(2,553)
Business purchase/selling expenses	6	-	(5,768)
Finance costs	6	(17,249)	(5,333)
Loss before income tax benefit		(3,374)	(13,831)
Income tax benefit		2,203	2,404
Loss after income tax benefit for the period		(1,171)	(11,427)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		875	559
Other comprehensive income for the period, net of tax		875	559
Total comprehensive loss for the period		(296)	(10,868)
Loss for the period is attributable to:			
Non-controlling interest		(720)	(200)
Owners of LawFinance Limited		(451)	(11,227)
		(1,171)	(11,427)
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		(720)	(200)
Owners of LawFinance Limited		424	(10,668)
		(296)	(10,868)
		Cents	**Cents**
Basic loss per share	7	(0.09)	(4.56)
Diluted loss per share	7	(0.09)	(4.56)

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

LawFinance Limited
Consolidated statement of financial position
As at 31 December 2019

	Note	Consolidated 31 December 2019 US$'000	Consolidated 31 December 2018 US$'000
Assets			
Current assets			
Cash and cash equivalents		5,777	3,696
Loan and other receivables	8	28,623	29,883
Prepayments		165	67
Total current assets		34,565	33,646
Non-current assets			
Loan and other receivables	8	71,009	69,438
Investment held in joint operations		1,157	1,166
Property, plant and equipment		168	198
Right-of-use assets	9	1,443	-
Goodwill	10	40,504	40,539
Other intangibles	11	8,040	8,784
Deferred tax		9,732	6,789
Total non-current assets		132,053	126,914
Total assets		166,618	160,560
Liabilities			
Current liabilities			
Trade and other payables		9,323	11,649
Borrowings	12	37,498	19,602
Lease liabilities		369	-
Employee benefits		213	215
Total current liabilities		47,403	31,466
Non-current liabilities			
Borrowings	12	97,460	111,120
Lease liabilities		1,162	-
Provision for withholding tax		804	-
Total non-current liabilities		99,426	111,120
Total liabilities		146,829	142,586
Net assets		19,789	17,974
Equity			
Issued capital	13	40,924	37,649
Reserves		6,873	5,998
Accumulated losses		(26,662)	(26,197)
Equity attributable to the owners of LawFinance Limited		21,135	17,450
Non-controlling interest		(1,346)	524
Total equity		19,789	17,974

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

LawFinance Limited
Consolidated statement of changes in equity
For the period ended 31 December 2019

Consolidated	Issued capital US$'000	Reserves US$'000	Accumulated losses US$'000	Non-controlling interest US$'000	Total equity US$'000
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)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 13)	19,228	-	-	-	19,228
Acquisition of non-controlling interests	-	-	-	903	903
Distributions to NCI	-	-	-	(179)	(179)
Share-based payments	-	4,255	-	-	4,255
Balance at 31 December 2018	37,649	5,998	(26,197)	524	17,974

Consolidated	Issued capital US$'000	Reserves US$'000	Accumulated losses US$'000	Non-controlling interest US$'000	Total equity US$'000
Balance at 1 January 2019	37,649	5,998	(26,197)	524	17,974
Adjustment for change in accounting policy (note 2)	-	-	(14)	-	(14)
Balance at 1 January 2019 - restated	37,649	5,998	(26,211)	524	17,960
Loss after income tax benefit for the period	-	-	(451)	(720)	(1,171)
Other comprehensive income for the period, net of tax	-	875	-	-	875
Total comprehensive income/(loss) for the period	-	875	(451)	(720)	(296)
Transactions with owners in their capacity as owners:					
Distributions to NCI	-	-	-	(1,150)	(1,150)
Issue of shares - placement (note 13)	3,499	-	-	-	3,499
Share issue costs	(224)	-	-	-	(224)
Balance at 31 December 2019	40,924	6,873	(26,662)	(1,346)	19,789

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

LawFinance Limited
Consolidated statement of cash flows
For the period ended 31 December 2019

	Note	Consolidated 12 months 31 December 2019 US$'000	6 months 31 December 2018 US$'000
Cash flows from operating activities			
Cash collections from customers (inclusive of GST)		33,060	10,674
Payments to suppliers and employees		(11,772)	(4,632)
Payments for disbursement reports and medical liens		(30,015)	(9,600)
Drawdowns from working capital facilities - disbursement funding division		9,903	5,919
Drawdowns from working capital facilities - medical lien funding division		18,095	4,912
Repayment of working capital facilities - disbursement funding division		(8,326)	(3,840)
Repayment of working capital facilities - medical lien funding division		(15,925)	(4,697)
Interest and fees related to working capital facilities		(8,476)	(2,606)
Interest received		7	72
Interest paid		(70)	-
Net cash (used in) operating activities		(13,519)	(3,798)
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired		-	(27,520)
Payments for purchase of non-controlling interest		(5)	-
Payments for property, plant and equipment		(156)	(158)
Payments for litigation case funding		(799)	-
Receipts for other intangibles (net of co-funders contributions)		-	901
Net proceeds from realisation of investments (case settlements)		632	1,348
Loans from other entities		-	30,546
Net cash (used in)/from investing activities		(328)	5,117
Cash flows from financing activities			
Proceeds from issue of shares	13	3,499	5,093
Share issue transaction costs		-	(55)
Proceeds from borrowings - corporate		17,998	438
Repayment of borrowings - corporate		(1,186)	(1,988)
Repayment of lease liabilities		(159)	-
Interest and fees related to loans and borrowings		(4,116)	(2,348)
Net cash from financing activities		16,036	1,140
Net increase in cash and cash equivalents		2,189	2,459
Cash and cash equivalents at the beginning of the financial period		3,696	934
Effects of exchange rate changes on cash and cash equivalents		(108)	303
Cash and cash equivalents at the end of the financial period		5,777	3,696

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

Note 1. General information

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

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 12 months ended 31 December 2019. The comparative accounting period is for the 6 months ended 31 December 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:

Suite 2, Level 16
56 Pitt Street
Sydney NSW 2000

Note 2. 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.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The directors are undertaking a full review of the appropriateness of the accounting policies applicable to the US business. This review is ongoing. The directors are of the view that the accounts, as presented, are true and fair.

The following Accounting Standards and Interpretations are most relevant to the Group:

Interpretation 23 Uncertainty over Income Tax
The Group has adopted Interpretation 23 from 1 January 2019. The interpretation clarifies how to apply the recognition and measurement requirements of AASB 112 'Income Taxes' in circumstances where uncertain tax treatments exists. The interpretation requires: the Group to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty; the Group to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value. In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Interpretation 23 was adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption on opening accumulated losses as at 1 January 2019.

*AASB 16 Leases (*modified retrospective approach)
The Group has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (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 improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Note 2. New or amended Accounting Standards and Interpretations adopted (continued)

Impact of adoption
AASB 16 is adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption on opening accumulated losses as at 1 January 2019 was as follows:

	1 January 2019 $'000
Right-of-use assets as at 1 January 2019 (AASB 117)	93
Accumulated depreciation as at 1 January 2019 (AASB 16)	(80)
Lease Liability - Current (AASB 16)	(18)
Lease Liability - Non-Current (AASB 16)	(9)
Increase in opening accumulated losses as at 1 January 2019	(14)

Note 3. Operating segments

Identification of reportable operating segments
The Group is 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.

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

Consolidated - 12 months 31 December 2019	JustKapital Finance US$'000	National Health Finance US$'000	Other US$'000	Total US$'000
Revenue				
Net income from disbursement funding/medical lien funding	3,252	(1,640)	-	1,612
Other revenue	30	181	450	661
Total revenue	3,282	(1,459)	450	2,273
Other income	-	-	587	587
Total revenue	3,282	(1,459)	1,037	2,860
Segment result	2,127	2,134	10,205	14,466
Depreciation and amortisation	(129)	(456)	(6)	(591)
Finance costs	(2,135)	(8,867)	(6,247)	(17,249)
Profit/(loss) before income tax benefit	(137)	(7,189)	3,952	(3,374)
Income tax benefit				2,203
Loss after income tax benefit				(1,171)
Assets				
Segment assets	27,039	123,711	15,868	166,618
Total assets				166,618
Liabilities				
Segment liabilities	22,546	72,767	51,516	146,829
Total liabilities				146,829

Note 3. Operating segments (continued)

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

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.

Geographical information

	Revenue from external customers		Geographical non-current assets	
	12 months 31 December 2019 US$'000	**6 months 31 December 2018 US$'000**	**31 December 2019 US$'000**	**31 December 2018 US$'000**
Australia	3,732	2,200	12,078	12,279
United States	(1,459)	141	39,235	38,408
	2,273	2,341	51,313	50,687

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

Note 4. Other revenue

	Consolidated 12 months 31 December 2019 US$'000	Consolidated 6 months 31 December 2018 US$'000
Interest received – short-term lending	30	94
Brokerage commission received – insurance	14	33
Rental income - office sub-leases	144	65
Rebates received - medical lien funding	11	-
Non-case related settlements	60	-
Administration fees	2	-
Interest adjustment - vendor loan	400	-
Other revenue	661	192

Note 5. Other income

	Consolidated 12 months 31 December 2019 US$'000	Consolidated 6 months 31 December 2018 US$'000
Litigation contracts in progress – settlements and judgements	636	4,475
Litigation contracts in progress – expenses	(57)	(2,744)
Interest income	3	13
Other income	582	1,744

Note 6. Expenses

	Consolidated	
	12 months 31 December 2019 US$'000	6 months 31 December 2018 US$'000
Loss before income tax includes the following specific expenses:		
Fair value gain on financial liabilities		
Fair value adjustment – vendor loan	(11,828)	-
Fair value adjustment – notes payable	(9,000)	-
	(20,828)	-
Employee benefits expense		
Defined contribution superannuation expense	72	34
Share-based payments expense	-	27
Employee benefits expense excluding superannuation	5,688	1,666
	5,760	1,727
Depreciation and amortisation expense		
Depreciation - property, plant and equipment	117	80
Depreciation - right-of-use assets	232	-
Amortisation - other intangibles	242	2
	591	82
Administration and other expenses		
ASIC, ASX and share registry fees	90	135
Insurance	107	98
Legal and professional fees	1,881	752
Write-off of acquisition costs of litigation assets	-	925
Rent and office costs	298	273
Travel and accommodation	204	119
Short-term lease payments	55	-
Low-value assets lease payments	44	-
Other	531	251
	3,210	2,553
Finance costs		
Interest expense and line fees	17,183	5,333
Interest - right-of-use assets	66	-
	17,249	5,333
Business purchase/selling expenses		
Legal and professional fees	-	2,612
Warrant costs	-	3,156
	-	5,768

Note 7. Earnings per share

	Consolidated	
	12 months 31 December 2019 US$'000	6 months 31 December 2018 US$'000
Loss after income tax	(1,171)	(11,427)
Non-controlling interest	720	200
Loss after income tax attributable to the owners of LawFinance Limited	(451)	(11,227)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	483,849,508	246,301,947
Weighted average number of ordinary shares used in calculating diluted earnings per share	483,849,508	246,301,947
	Cents	Cents
Basic loss per share	(0.09)	(4.56)
Diluted loss per share	(0.09)	(4.56)

The Company excluded, nil options on issue (31 December 2018: 1,500,000), 50,000 convertible bonds (31 December 2018: 50,000) and 452,743,636 warrants (31 December 2018: 452,743,636), from the diluted earnings calculations as they are anti-dilutive for the financial period.

Note 8. Loan and other receivables

	Consolidated	
	31 December 2019 US$'000	31 December 2018 US$'000
Current assets		
Loan receivables - disbursement funding/medical lien funding (gross)	62,729	56,707
Fair value movement	(29,345)	(27,264)
Unrecognised day 1 margin	(5,715)	(1,983)
	27,669	27,460
Other trade receivables	70	180
Short-term loans	283	488
	353	668
Allowance for expected credit losses	(700)	-
Other receivables	1,301	1,755
	28,623	29,883
Non-current assets		
Loan receivables - disbursement funding/medical lien funding (gross)	164,233	148,541
Fair value movement	(88,046)	(76,612)
Unrecognised day 1 margin	(5,183)	(2,491)
	71,004	69,438
Other receivables	5	-
	71,009	69,438
	99,632	99,321

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 include US$nil (31 December 2018: US$nil) which are past due but not impaired. The Company believes the amounts are fully recoverable.

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

Note 9. Right-of-use assets

	Consolidated	
	31 December 2019 US$'000	31 December 2018 US$'000
Non-current assets		
Land and buildings - right-of-use	1,755	-
Less: Accumulated depreciation	(312)	-
	1,443	-

Additions to the right-of-use assets during the period were US$1,755,000.

The Group leases land and buildings for its offices under agreements of between five and seven years, with, in some cases, options to extend.

Note 10. Goodwill

	Consolidated	
	31 December 2019 US$'000	31 December 2018 US$'000
Non-current assets		
Goodwill - Australian disbursement funding business	4,159	4,194
Goodwill - US medical lien funding business	36,345	36,345
	40,504	40,539

Movements in Goodwill during the current financial year are set out below:

	Australian disbursement funding business US$'000	US medical lien funding business US$'000
Balance at 1 January 2019	4,194	36,345
Foreign currency translation	(35)	-
Balance as at 31 December 2019	4,159	36,345

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% (31 December 2018: 15%) and cash flows beyond the five-year period are extrapolated using a 1% (31 December 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 Australian disbursement funding 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 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 19% (31 December 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 9% (31 December 2018: negative 4%) in the long-term growth rate would result in goodwill being impaired.

Note 10. Goodwill (continued)

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 11% (31 December 2018: 15%) and cash flows beyond the five-year period are extrapolated using a 1% (31 December 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 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 20% (31 December 2018: 24%) would result in goodwill being impaired.

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

Note 11. Other intangibles

	Consolidated	
	31 December 2019 US$'000	31 December 2018 US$'000
Non-current assets		
Website - at cost	17	17
Less: Accumulated amortisation	(13)	(10)
	4	7
Customer relationships – US medical lien funding business	1,913	1,913
Less: Accumulated amortisation	(239)	-
	1,674	1,913
Litigation contracts in progress - capitalised external costs	5,594	6,314
Litigation contracts in progress - capitalised internal costs	768	550
	6,362	6,864
	8,040	8,784

Note 11. Other intangibles (continued)

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

Consolidated	Website US$'000	Customer relationships US$'000	Litigation contracts in progress US$'000	Total US$'000
Balance at 1 July 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)
Balance at 31 December 2018	7	1,913	6,864	8,784
Additions*	-	-	(448)	(448)
Exchange differences	-	-	(54)	(54)
Amortisation expense	(3)	(239)	-	(242)
Balance at 31 December 2019	4	1,674	6,362	8,040

* These additions are net of any co-funder contributions.

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% (31 December 2018: 15%).

As a result of the impairment testing performed an amount of $458,000 (31 December 2018: $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 12. Borrowings

	Consolidated 31 December 2019 US$'000	Consolidated 31 December 2018 US$'000
Current liabilities		
Vendor loan - Australian disbursement funding business (i)	315	824
Convertible bonds payable (ii)	3,500	3,529
Lucerne Group combined loan (iii)	11,642	8,548
Lucerne Group facility - US medical lien funding business (iv)	8,858	5,238
Paradise Diversified Holdings Limited Partnership (v)	4,163	-
Vendor loan - NHF Founders (vi)	122	-
Other NHF subordinated debt (viii)	1,180	-
Other NHF subordinated debt (ix)	1,000	1,000
Other NHF subordinated debt (x)	3,000	-
Insurance financing - Australia	33	-
Pitt Capital Partners Limited (xi)	1,252	-
Washington H. Soul Pattinson & Company Limited (xii)	2,275	-
Insurance financing - USA	55	49
Credit cards	103	414
	37,498	19,602
Non-current liabilities		
Assetsecure Pty Limited loan (xiii)	21,447	20,028
Atalaya Capital Management (xiv)	41,603	39,902
NHF Founder Promissory Notes (vii)	-	9,000
Lucerne Group facility - US medical lien funding business (iv)	3,264	-
Syndicated acquisition facility (xv)	29,396	29,644
Vendor loan - NHF Founders (vi)	-	12,546
Other NHF subordinated debt (x)	1,750	-
	97,460	111,120
	134,958	130,722

(i) Vendor loan - Australian disbursement funding business
The loan due to the vendor of the Australian disbursement funding business is repayable on 15 March 2020. Interest is payable at 11% (31 December 2018: 7.5%) per annum. The Group signed a variation agreement on 2 July 2019, with a monthly repayment schedule. 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). Interest payments are cumulative and payable at 11.5% per annum (31 December 2018: 11.5%), 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 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 bonds maturity date was extended to 15 March 2020 to enable shareholder approval to be obtained at the upcoming extraordinary general meeting to allow the bonds to be converted into ordinary shares in the Company (see note 16).

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 12. 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 2019.

(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 15 March 2020. Ongoing interest payable is 13.5% per annum (31 December 2018: 13.5% per annum (including establishment fees)) on $8,843,000 (31 December 2018: $8,548,000). Ongoing interest payable is 15% per annum (31 December 2018: $nil) on $2,799,000 (31 December 2018: $nil).The loan is unsecured.

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 2019.

Post 31 December 2019, the Company either repaid this loan from the Entitlement Offer by issue of equity or the loan will be converted into the Capitalising Converting Note, subject to shareholder approval at the upcoming extraordinary general meeting (see note 16).

(iv) Lucerne Group facility - US medical lien funding business
Lucerne Finance Pty Limited and the Principis Master Fund have jointly provided facilities totalling $12,122,000 (31 December 2018: $5,238,000) to the medical lien funding business as at 31 December 2019. $8,858,000 of this facility is repayable on 28 September 2020 with an interest rate of 19% per annum (31 December 2018: 19% per annum), $2,550,000 of this facility is repayable on 9 August 2021 with an interest rate of 9.95% per annum (31 December 2018: $nil) and $714,000 of this facility is repayable on 13 September 2021 with an interest rate of 15.50% per annum (31 December 2018: $nil). Post 31 December 2019, the company either repaid this loan from the Entitlement Offer by issue of equity or the loan will be converted into the Capitalising Converting Note, subject to shareholder approval at the upcoming extraordinary general meeting (see note 16).

(v) Paradise Diversified Holdings Limited Partnership
This facility of $4,163,000 (31 December 2018: $nil) has been provided to fund the investment in specific accounts receivable in the US. This facility is repayable on 1 August 2020 and can be repaid by the Company earlier without penalty. Interest payable under this facility is 30% per annum (31 December 2018: $nil). The loan is guaranteed by NHF and LawFinance.

(vi) Vendor loan - NHF Founders
The Vendor loan – NHF Founders was forgiven during the period, if the Company issues various options to the Vendors by 31 December 2020 (see note 16). The options to be issued are subject to shareholder approval at the extraordinary general meeting which has been called on 10 March 2020. If shareholders do not approve the issue of the options, the Vendor loan – NHF Founders will be reinstated. The balance due as at 31 December 2019 of $122,000 (31 December 2018: $12,546,000) represents the value of the options to be issued to the Vendors upon shareholder approval. The loan is interest free (31 December 2018: 13% per annum) and is unsecured.

(vii) NHF Founder Promissory Notes
The NHF Founder Promissory Notes were forgiven during the period, if the Company issues various options to the Vendors by 31 December 2020 (see note 16). The options to be issued are subject to shareholder approval at the extraordinary general meeting which has been called on 10 March 2020. If shareholders do not approve the issue of the options, the Vendor loan – NHF Founders will be reinstated. The balance due as at 31 December 2019 was $nil (31 December 2018: $9,000,000). The loan is interest free and is unsecured.

(viii) Other NHF subordinated debt
A third party has provided a $1,180,000 facility (31 December 2018: $nil) to fund working capital of the business which remains payable as at 31 December 2019. This facility is repayable on 31 May 2020. Interest payable under this facility is 24% per annum and can be repaid early without penalty (31 December 2018: $nil). The loan is guaranteed by NHF and LawFinance.

Note 12. Borrowings (continued)

(ix) Other NHF subordinated debt
A third party has provided a $1,000,000 facility to NHF which remains payable as at 31 December 2019 (31 December 2018: $1,000,000). The facilities are repayable on demand. Interest is payable at 12% per annum (31 December 2018: 12% per annum). The loan is unsecured.

(x) Other NHF subordinated debt
Three third parties have provided facilities totalling $4,750,000 (31 December 2018: $nil) to the medical lien funding business to fund working capital as at 31 December 2019. $3,000,000 of this facility is repayable on 31 December 2020 with an interest rate of 13.50% per annum (31 December 2018: $nil), $250,000 of this facility is repayable on 30 June 2021 with an interest rate of 13% per annum (31 December 2018: $nil) and $1,500,000 of this facility is repayable on 31 July 2021 with an interest rate of 13.50% per annum (31 December 2018: $nil). These loans are guaranteed by NHF and LawFinance.

(xi) Pitt Capital Partners Limited
Pitt Capital Partners Limited have provided a $1,252,000 (A$1,789,000) (31 December 2018: $nil) loan to the Group. The loan is repayable on 30 June 2020. Interest payable under this loan is 15% per annum (31 December 2018: nil). 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 below).

(xii) Washington H. Soul Pattinson & Company Limited
Washington H Soul Pattinson & Company Limited have provided a $2,275,000 (A$3,250,000) (31 December 2018: $nil) deferred financing arrangement, giving the Group the ability to defer interest payments payable under the Syndicated Acquisition Facility. The deferred financing arrangement is repayable on 30 June 2020. Interest payable under this arrangement is 15% per annum (31 December 2018: $nil). 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 below).

(xiii) Assetsecure Pty Limited ('Assetsecure')
On 2 August 2019 the Group executed a Variation letter increasing the loan facility to $27,996,000 (A$40,000,000) (31 December 2018: $24,703,000) (A$35,000,000), which is available to fund the Australian disbursement funding business operated by JustKapital Financing Pty Limited. This loan facility expires on 30 September 2022. 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 7.70% per annum (31 December 2018: 7.95% per annum) on the drawn down amounts and the facility line fee is 1% per annum (31 December 2018: 1% per annum).

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

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 2019.

(xiv) Atalaya Capital Management ('Atalaya')
The loan facility of $80,000,000 (31 December 2018: $80,000,000) 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 (31 December 2018: 13.45% per annum) and the undrawn line fees are 1% (31 December 2018: 1%).

The facility is subject to a number of covenants. A breach of a covenant may require the Group to repay the loan earlier. Several covenants were breached during the period ending 31 December 2019. Atalaya and the Group entered into a forbearance arrangement on 17 October 2019. That forbearance arrangement provided that all prior covenant breaches will be waived if the Group complied with the forbearance arrangement by 31 January 2020. The Group received confirmation of the waiver on 28 February 2020.

Note 12. Borrowings (continued)

(xv) Syndicated acquisition facility
The Syndicated acquisition facility of $29,396,000 (A$42,000,000) (31 December 2018: $29,644,000 (A$42,000,000)) was provided by leading Australian institutions and family offices. 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 (31 December 2018: 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).

The facility is subject to a number of covenants. A breach of a covenant may require the Group to repay the loan earlier. Several covenants were breached during the period ending 31 December 2019. The Group continues to negotiate a forbearance agreement with the Majority Lender of the Syndicated acquisition facility.

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

	Consolidated	
	31 December 2019 US$'000	31 December 2018 US$'000
Total facilities		
Assetsecure Pty Limited loan*	27,996	24,703
Atalaya Capital Management**	80,000	80,000
NHF founder promissory notes	-	9,000
Syndicated acquisition facility	29,396	29,644
Vendor loan - NHF Founders	-	12,546
	137,392	155,893
Used at the reporting date		
Assetsecure Pty Limited loan*	21,447	20,028
Atalaya Capital Management**	41,603	39,902
NHF founder promissory notes	-	9,000
Syndicated acquisition facility	29,396	29,644
Vendor loan - NHF Founders	-	12,546
	92,446	111,120
Unused at the reporting date		
Assetsecure Pty Limited loan*	6,549	4,675
Atalaya Capital Management**	38,397	40,098
NHF founder promissory notes	-	-
Syndicated acquisition facility	-	-
Vendor loan - NHF Founders	-	-
	44,946	44,773

* The facility can be drawn-down based upon various calculations relating to the underlying disbursement funding receivables. As at 31 December 2019, $nil could be drawn down as a result of these calculations (31 December 2018: $20,863).

** The facility can be drawn-down based upon various calculations relating to the underlying medical lien funding receivables. As at 31 December 2019, $nil could be drawn down as a result of these calculations (31 December 2018: $238,530).

Note 13. Issued capital

	Consolidated			
	31 December 2019 Shares	31 December 2018 Shares	31 December 2019 US$'000	31 December 2018 US$'000
Ordinary shares - fully paid	561,760,467	483,635,467	40,924	37,649

Note 13. Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	US$'000
Balance	1 July 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		-		(180)
Balance	31 December 2018	483,635,467		37,649
Issue of shares - placement *	31 December 2019	78,125,000	US$0.045	3,499
Share issue costs		-		(224)
Balance	31 December 2019	561,760,467		40,924

* These shares were issued by the share registry on 2 January 2020.

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 215,097,403 (31 Dec 2018: 222,430,736) ordinary shares escrowed at 31 December 2019.

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

Note 14. 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 2019	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets measured at fair value:				
Loan receivables - disbursement funding/medical lien funding	-	-	109,571	109,571
Total assets	-	-	109,571	109,571
Liabilities measured at fair value:				
Vendor Loan – NHF Founders	-	-	122	122
Total liabilities	-	-	122	122

Note 14. Fair value measurement (continued)

Consolidated - 31 December 2018	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets measured at fair value:				
Loan receivables - disbursement funding/medical lien funding	-	-	101,372	101,372
Total assets	-	-	101,372	101,372

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 2019 and 31 December 2018 are as shown below.

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

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

Note 14. Fair value measurement (continued)

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

Consolidated	Fair value US$'000	Deferred day 1 margin US$'000	Total US$'000
Balance at 1 July 2018	23,391	(3,413)	19,978
Additions through business combinations	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	101,372	(4,474)	96,898
Cash disbursements in relation to new loans	30,240	-	30,240
New day 1 margin	-	(14,762)	(14,762)
Cash collections - disbursement funding	(32,916)	-	(32,916)
Gains or losses recognised in profit or loss*	11,187	-	11,187
Amortisation of day 1 margin	-	8,312	8,312
Exchange rate movement	(312)	26	(286)
Balance at 31 December 2019	109,571	(10,898)	98,673

* This takes into account the reduction in fair value as a result of the write-down of a portion of the acquired NHF receivables.

This reconciliation excludes other receivables and short-term loans.

The loan receivables - disbursement funding/medical lien funding (gross) balance was US$226,962,000 as at 31 December 2019 (31 December 2018: US$205,248,000).

Fair value adjustment – NHF Vendor loan and Founder Promissory Notes

In connection with the Company's acquisition of National Health Finance HoldCo, LLC (NHF), the Company entered into various arrangements with David Wattel and Mark Siegel (jointly the NHF Vendors). As part of the acquisition, Mr Wattel was appointed as an executive director of the Company.

On 24 October 2019, the Company executed a variation deed with the NHF Founders and they have agreed, subject to shareholder approval being received at the upcoming EGM on 10 March 2020, to accept a combination of unlisted options as full payment for its promissory notes (under which USD$9 million is owed by the Company to the two NHF Vendors, split evenly between the two NHF Vendors) and vendor loans (where the principal amount of A$17.2 million is owed by the Company to the NHF Vendors, split evenly between the two NHF Vendors).

The options to be issued are as follows:

Number of options	Exercise price	Expiry date
24,000,000	A$0.25	28 September 2021
22,500,000	A$0.40	28 September 2022
25,000,000	A$0.60	28 September 2023

If shareholders do not approve the issue of the options, both the promissory notes and vendor loans will be reinstated.

In addition, the NHF Vendors have agreed to vary their respective employment agreements so that a non-discretionary bonus is no longer payable by the Company.

Note 14. Fair value measurement (continued)

The value of the options to be issued, using the Black Scholes model, was US$122,000. This value was calculated using the Company's share price at the date of executing the variation deed (A$0.073), with an annualised volatility of 56% and a risk-free interest rate of 0.75% p.a.

Shareholder approval to issue the combination of unlisted options to the NHF Founders is being considered under Resolutions 3 and 4 of the upcoming Extraordinary General Meeting scheduled to be held on 10 March 2020. The directors are voting in favour of these resolutions and feedback from discussions with major shareholders is highly supportive of these two resolutions being passed without opposition.

Loan	Opening Balance US$'000	Fair value movement US$'000	Foreign currency translation US$'000	Closing balance US$'000
Vendor Loan – NHF Founders	12,546	(11,828)	(596)	122
NHF – Founder Promissory Notes	9,000	(9,000)	-	-
Total	21,546	(20,828)	(596)	122

Note 15. Contingent liabilities

Bank guarantees
The Group has given bank guarantees as at 31 December 2019 of $104,000 (31 December 2018: $112,000) 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% (31 December 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% (31 December 2018: 70%) of the amount spent by the plaintiff and that there is only one defendant per case.

At 31 December 2019 the total amount spent by the Group where undertakings to pay adverse costs have been provided was $13,231,000 (31 December 2018: $5,750,000). The potential adverse costs orders using the above methodology would amount to $9,262,000 (31 December 2018: $3,883,000). 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 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. Litigation has been commenced by the seller, and the Company intends to vigorously defend those proceedings.

Litigation against NHF
NHF remains in litigation on the two separate proceedings that were commenced 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 15. Contingent liabilities (continued)

NHF is in litigation that was commenced in Oklahoma in 2019. The proceedings relate to a patient of a medical provider that sold various receivables to NHF. The proceeding is being defended as the lien is a legal contract, binding upon the injured party. NHF also has limited insulation from amounts payable, if any, due to its indemnity clause with the medical provider. As such, NHF believes there will be no amounts paid to the plaintiff.

Note 16. Events after the reporting period

Capital raise

On the 24 December 2019, the Company announced that it completed a US$3.4 million (A$5.0 million) equity placement ('Placement') with existing and new sophisticated investors at A$0.064 per share. The funds raised and shares issued have been included in these financial results.

Also on 24 December 2019, the Company announced that all shareholders will be offered the opportunity to participate in a further capital raising to be undertaken via a 1:1 Pro-Rata Non-Renounceable Entitlement Offer at A$0.064 per share ('Entitlement Offer'), representing a 16% discount to the 30-day VWAP.

The Entitlement Offer was partially underwritten for A$20 million by Lucerne Australia Pty Ltd.

On 19 February 2020, the Company announced it had raised a total of A$21.2 million under the Entitlement Offer.

Of these funds raised under the Entitlement Offer, A$12.9 million was used to repay existing debt. The balance of A$8.3 million was received in cash.

The issue of shares occurred on 21 February 2020. The new shares on issue are as follows:

Description	Number of shares
Original shares on issue	483,635,467
Shares issued under the Placement (completed 24 December 2020)	78,125,000
Shares issued under the Entitlement Offer (completed 21 February 2020)	330,923,639
Shares on issue as at 21 February 2020	892,684,106

The proceeds from the Placement and the Entitlement Offer was used by the Company for the following purposes:
- reduce existing debt totalling A$12.9 million;
- provide working capital, particularly for new funding opportunities in the US medical lien funding business; and
- pay the costs of the Entitlement Offer and the Placement.

Extraordinary General Meeting ('EGM')

On 7 February 2020, the Company announced that an EGM will be held on 10 March 2020 and that five resolutions will be put forward to shareholders for approval as follows:

Resolution 1:	Approval of issue of shares on the conversion of the convertible bonds to non-related parties
Resolution 2:	Approval of Issue of shares on the conversion of the convertible bonds to related party
Resolution 3:	Approval of issue of options to David Wattel
Resolution 4:	Approval of issue of options to Mark Siegel
Resolution 5:	Approval of issue of Capitalising Converting Note

Note 16. Events after the reporting period (continued)

If the resolutions are approved, the Company will be able to implement a number of initiatives of the reorganisation following on from the Placement and the Entitlement Offer as follows:

(a) **Bondholder conversion:** The Company is seeking shareholder approval to permit the conversion of A$5 million plus outstanding interest of convertible bonds into shares at an issue price of 6.4 cents (A$0.064) per share. The projected number of shares to be issued if these resolutions are approved and all Bondholders elect to convert is 81,693,872 shares.
This conversion is being considered under Resolutions 1 and 2 of the EGM.

(b) **NHF Vendor Debt Conversion**: In connection with the Company's acquisition of National Health Finance HoldCo, LLC ('NHF'), the Company entered into various arrangements with David Wattel and Mark Siegel (jointly 'the NHF Vendors'). As part of the acquisition, Mr Wattel was appointed as an executive director of the Company.
As part of the capital reorganisation arrangements announced by the Company, the NHF Vendors have agreed, subject to shareholder approval being received at the EGM, to accept a combination of unlisted options as full payment for its promissory notes (under which US$9 million is owed by the Company to the two NHF Vendors, split evenly between the two NHF Vendors) and vendor loans (where the principal amount of A$17.2 million is owed by the Company to the NHF Vendors, split evenly between the two NHF Vendors).

The options to be issued are as follows:

Number of options	Exercise price	Expiry date
24,000,000	A$0.25	28 September 2021
22,500,000	A$0.40	28 September 2022
25,000,000	A$0.60	28 September 2023

In addition, the NHF Vendors have agreed to vary their respective employment agreements so that a non-discretionary bonus is no longer payable by the Company.

Shareholder approval to issue the combination of unlisted Options is being considered under Resolutions 3 and 4 of the EGM.

(c) **Issue of new Capitalising Converting Note:** The Company is seeking shareholder approval for a group of Subordinated Debtholders to convert their subordinated debt to a new convertible note ('Capitalising Converting Note') which has the following material terms:

(i) Face value of A$28.4 million.
(ii) 6% per annum interest rate that is capitalised.
(iii) Convertible on or before 31 December 2022.
(iv) Conversion price of A$0.10 per share.
(v) Projected maximum number of shares in which the Capitalising Converting Note is convertible to is 335,048,088 shares (based on fully capitalised sum as of 31 December 2022).

Shareholder approval to issue the Capitalising Converting Note is being considered under Resolution 5 of the EGM.

The Directors have recommended that shareholders approve all of the resolutions.

Application for waiver of Listing Rule 6.23.3

In connection with the Company's acquisition of NHF, the Company issued 452,743,636 warrants. The warrants were issued to various lenders, otherwise known as the 'Syndicated Acquisition Lenders' as well as the NHF Vendors, including Mr Wattel.

Note 16. Events after the reporting period (continued)

In order to gain approval from this Lender group for the capital reorganisation arrangements announced by the Company, the Company has agreed to vary the warrants issued to the Syndicated Acquisition Lenders and the NHF Vendors as follows:

(i) Each warrant entitles the warrant holder to acquire one (1) fully paid ordinary share upon payment to the Company of A$0.10 per warrant ('Exercise Price') (the previous Exercise Price was A$0.14 per warrant); and
(ii) The warrants may be exercised at any time prior to 8 November 2023 (previous expiry date was prior to 28 September 2022).

In order to put the above amendments to shareholders, the Company is seeking a waiver from ASX Listing Rule 6.23.3. If the waiver is granted, the Company intends to include the resolutions to vary the terms of the warrants in this year's Annual General Meeting.

As announced by the Company on 24 December 2019, if all the resolutions at the upcoming EGM are approved by shareholders, total Group net debt will be significantly reduced and this material improvement in the balance sheet will provide an immediate and significant reduction in interest cost of approximately A$8.0 million per annum.

Case Settlement

As announced to the ASX on 7 February 2020, the Company has confidentially settled a case that it has funded. The settlement is subject to approval of the Federal Court of Australia.

This case is the last of the five cases of the litigation portfolio acquired by the Company, as announced to the ASX on 11 July 2016.This case was co-funded with Longford Capital LLC.

No other matter or circumstance has arisen since 31 December 2019 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.