



Annual Report 2019



ABN 72 088 749 008

LawFinance Limited
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31 December 2019

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Directors	<p>Tim Storey - Non-Executive Chairman Diane Jones - Chief Executive Officer, Executive Director Anthony Murphy - Non-Executive Director David Wattel - Executive Director</p>
Company secretary	Dean Jagger
Registered office	<p>Suite 2, Level 16 56 Pitt Street Sydney NSW 2000 Tel: +61 2 9696 0220 Fax: +61 2 9252 3430</p>
Share register	<p>Automic Pty Ltd Level 5 126 Phillip Street Sydney NSW 2000 Tel: 1300 288 664 (within Australia) or +61 2 9698 5414 (outside Australia) Fax: +61 2 9287 0303</p>
Auditor	<p>Stantons International 6 Middlemiss Street Lavender Bay NSW 2060</p>
Solicitors	<p>Corrs Chambers Westgarth Level 17 8-12 Chifley Square Sydney NSW 2000</p> <p>Automic Pty Ltd Level 5 126 Phillip Street Sydney NSW 2000</p>
Stock exchange listing	LawFinance Limited shares are listed on the Australian Securities Exchange (ASX code: LAW)
Website	www.lawfinance.com.au
Corporate Governance Statement	<p>The directors and management are committed to conducting the business of LawFinance Limited in an ethical manner and in accordance with the highest standards of corporate governance. LawFinance Limited has adopted and substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations.</p> <p>The Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, was approved by the Board of Directors at the same time as the Annual Report and can be found at http://www.lawfinance.com.au/investorcentre/governance/</p>

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 year ended 31 December 2019.

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

Nature of operations and principal activities

The Group has developed into a diversified provider of financing solutions for law firms. During the financial year the principal activities of the Group consisted of:

- Medical lien funding;
- Disbursement funding; and
- Litigation funding, which is being wound down.

Medical lien funding

National Health Finance Holdco, LLC and its subsidiaries ('NHF') operate a medical lien funding business in the United States.

Established in 1999, the NHF business is an Arizona-based medical lien funding business providing funding in 21 states in the United States. The medical liens purchased generally relate to the provision of medical services to individuals involved in motor vehicle accidents where the services are required due to an injury sustained in the accident and where those individuals were the not-at-fault party. This business was purchased by the Group on 28 September 2018.

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 upon conclusion of the personal injury 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. NHF's funding solution is also of benefit to the lawyers acting on behalf of the injured party as it ensures there is no "gap" in medical care and the claim can be maximised. Thus the solution assists all three plaintiff-side parties.

The key business drivers of the NHF business entail ensuring that:

- an appropriate discount is negotiated with the medical provider when purchasing each medical lien or letter of protection. On average NHF pays around 30% of the face value of the relevant invoice;
- the law firm progresses the case within normal parameters. On average NHF's cases are completed within 37 months; and
- an appropriate amount for the medical lien is paid from each case settlement. On average NHF collects around 50% of the face value of a medical lien when the applicable case concludes.

In any given financial period, the profitability of this business is dependent upon revenue and settlement levels. Legislative, regulatory, judicial, policy changes, and additional competition may have an impact on future profitability.

Disbursement funding

The disbursement funding division operates in Australia and is referred to as 'JustKapital Finance'.

JustKapital Finance provides finance to law firms to fund the legal disbursements required to progress the claims of their clients and which the client generally cannot fund themselves. The deferred payment structure offered by JustKapital Finance addresses the immediate and growing demand where the client or firm cannot, or may not be willing to, fund disbursements directly. JustKapital Finance does not fund the legal fees related to the case. JustKapital Finance pays the disbursements directly, charges a standardised mark-up and immediately invoices the law firm once the disbursements are paid. The JustKapital Finance invoice becomes payable upon completion of the underlying case, which on average is in about 25 months' time. Discounts may be provided to 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 client law firm 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, policy changes, and additional competition may have an impact on future profitability.

Litigation funding

During the 2018 financial year the Board resolved to exit the litigation funding division. The litigation funding division is capital intensive which stretched 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 core businesses, being the JustKapital Finance and NHF businesses.

The litigation funding division provided investigation and management services, as well as providing finance to claimants to progress their claims. These services and funding are provided pursuant to a contract with each funded claimant or as otherwise ordered by the Court. 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 may earn a fee and will generally 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 judgment proceeds. If the litigation is unsuccessful, the Group does not generate any income. In Australia, 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.

Dividends

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

Review of operations

The last twelve months has been a transformational year for the Group as management focused on the operational challenges of integrating, and operationally improving, the very substantial NHF 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.

Key Highlights:

- FY2019 total comprehensive loss has improved 80% to US\$2.225 million.
- Net assets have remained static despite the loss in the period at US\$17.74 million.
- Cash on hand has improved 56% to US\$5.8 million.

A preliminary set of accounts was released to the market on 28 February 2020. Those accounts were prepared with the Group using the "fair value through profit or loss" accounting methodology under AASB 9 'Financial Instruments'. Following the release of those preliminary accounts, the Group received advice from its external accounting experts that it was more appropriate to use the "amortised cost" accounting methodology under AASB 9 for the NHF business, but not the JustKapital Finance business (refer to note 2 and note 4). Therefore, these accounts have been prepared based upon this latest accounting advice using the two different accounting methodologies for the different businesses.

Despite the amortised cost accounting methodology used to report the NHF business, much of the economic returns from NHF's originations are not yet apparent in the consolidated statement of profit or loss. During the current year the Company impaired US\$8.4 million in receivables (using the amortised cost accounting methodology) and reported negative revenue of US\$4.2 million (refer to note 6). The impairment was offset by a reduction in the NHF Vendor loans (refer to note 22) and compares to US\$22.7 million in cash collections from customers in the NHF business in the period.

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 by June 2020, will afford the Company the financial fire power 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 matters subsequent to the end of the financial period section of this report.

The statement of financial position ('balance sheet') reflects a carrying value of the receivables from the main NHF and JustKapital Finance businesses of US\$95,314,000 (2018: US\$96,777,000). There is also an estimated US\$2,738,000 (2018: US\$3,037,000) classified as "unrecognised day 1 margin" and US\$2,227,000 (2018: US\$2,798,000) classified as "fair value" under AASB 9, both of which represent future profit to be recognised in the statement of profit or loss for the JustKapital Finance business.

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 resolved on the assumption that the remaining cases are successful.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

1. Capital raise

On 24 December 2019, the Company announced that it had completed a US\$3.4 million (A\$5.0 million) equity placement ('Placement') with existing and new sophisticated investors at US\$0.045 (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 US\$0.045 (A\$0.064) per share ('Entitlement Offer'), representing a 16% discount to the 30-day VWAP.

The Entitlement Offer was partially underwritten to US\$14.0 million (A\$20.0 million) by Lucerne Australia Pty Ltd.

On 19 February 2020, the Company announced it had raised a total of US\$14.8 million (A\$21.2 million) under the Entitlement Offer.

Of these funds raised under the Entitlement Offer, US\$9.0 million (A\$12.9 million) was used to repay existing debt. The balance of US\$5.8 million (A\$8.3 million) was received in cash.

The issue of shares occurred on 21 February 2020. The total 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 2019)	78,125,000
Shares issued under the Entitlement Offer (completed 21 February 2020)	330,923,639
Shares on issue as at 21 February 2020	<u>892,684,106</u>

The proceeds from the Placement and the Entitlement Offer were used by the Company for the following purposes:

- reduce existing debt totalling US\$9.0 million (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.

2. Extraordinary General Meeting ('EGM')

On 10 March 2020, the Company held an EGM that proposed five resolutions to shareholders for approval. All of the resolutions were approved. The Company will now be able to finalise the implementation of a number of the reorganisation initiatives following on from the Placement and the Entitlement Offer. The overall outcome from all of these initiatives is a significant reduction in total Group net debt with a corresponding material improvement in the balance sheet and an immediate and significant reduction in interest costs.

The five resolutions approved at the EGM were 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 a 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.

- (a) Bondholder conversion: The Company has shareholder approval to permit the conversion of US\$3.5 million (A\$5.0 million) (plus outstanding interest) of convertible bonds into shares at an issue price of 4.5 US cents (US\$0.045) (6.4 Australian cents (A\$0.064)) per share. The projected number of shares to be issued if all Bondholders elect to convert is 81,693,872 shares.

This conversion was approved under Resolutions 1 and 2 of the EGM.

- (b) NHF Vendor Debt Conversion: In connection with the Company's acquisition of 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 an executive director of the Company.

As part of the capital reorganisation arrangements announced by the Company, the NHF Vendors have agreed to accept a combination of unlisted options as full payment for its promissory notes (under which US\$9.0 million (A\$12.9 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 US\$12.0 million (A\$17.2 million) is owed by the Company to the NHF Vendors, split evenly between the two NHF Vendors).

Subsequent to shareholder approval of Resolutions 3 and 4 of the EGM, the following options were issued on 13 March 2020:

Number of options	Exercise price	Expiry date
24,000,000	US\$0.175 (A\$0.25)	28 September 2021
22,500,000	US\$0.28 (A\$0.40)	28 September 2022
25,000,000	US\$0.42 (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.

- (c) Issue of new Capitalising Converting Note: A group of subordinated debtholders have agreed to convert their subordinated debt into a new convertible note ('Capitalising Converting Note') which has the following material terms:
- (i) Face value of US\$19.9 million (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 US\$0.07 (A\$0.10) per share; and
 - (v) Projected maximum number of shares the Capitalising Converting Note is convertible to is 335,048,088 shares (based on fully capitalised sum as of 31 December 2022).

The issue of shares under the Capitalising Converting Note was approved by Shareholders under Resolution 5 of the EGM.

3. Application for waiver of ASX 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.

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 sought a waiver from ASX Listing Rule 6.23.3. The ASX did not grant the waiver requested due to the level of warrants on issue when compared to the total number of shares on issue. The Company has informed the Syndicated Acquisition Lenders of the decision of the ASX and continues to work with these lenders to find a workable solution to finalise this aspect of its capital reorganisation.

4. COVID-19 (Coronavirus)

On 11 March 2020, Coronavirus was declared a pandemic by the World Health Organisation, with resulting significant impacts on local and world economies. At this point in time given the rapidly evolving situation, the Group is unable to quantify the impact the Coronavirus pandemic will have on the future financial performance of its businesses. However, both cash collections and originations are likely to slow down as both the USA and Australian governments implement quarantine initiatives and economic activity in general slows down.

Whilst the Group continues to actively monitor the situation and its impacts, it is likely that cash collection covenants in the Group's financial facilities will not be met over the next few months. In addition, other financial covenants contained within the various loan arrangements the Group is party to may be breached. The Group is working with each of its financiers in advance of these potential challenges in order to obtain standstill and/or forbearance agreements during this time. These discussions are on-going and the Group will update the market as and when appropriate in accordance with its continuous disclosure obligations.

5. 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 was 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.

This dispute was settled between the parties on 27 March 2020 with no admission as to liability. The Group has agreed to issue the seller 14,000,000 shares at an agreed value of A\$0.064 per share (A\$896,000) and release claims to certain amounts currently in a solicitor's trust account. The Company will receive approximately A\$750,000 from funds currently held in trust.

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.

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 are unable to determine the impact the Coronavirus pandemic may have on its future results at this time. The Group is likely to require the agreement of its lenders to standstill and/or forbear in relation to expected future covenant contraventions. At the date of this report none of the Group's lenders have demanded repayment of their loans and all have indicated a willingness to work with the Group during the Coronavirus pandemic. Discussions with the Group's lenders are on-going and the Group will update the market as and when appropriate in accordance with its continuous disclosure obligations.

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 and Nominations Committee and Chairman of the Audit and Risk Committee
Interests in shares:	7,263,315 ordinary shares
Interests in options:	Nil options/warrants over ordinary shares
Interests in rights:	Nil performance rights over ordinary shares
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 and Nominations Committee and member of the Audit and Risk Committee
Interests in shares:	4,936,250 ordinary shares
Interests in options:	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:	4,303,014 ordinary shares
Interests in options:	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:	61,431,818 warrants over ordinary shares; Nil options over ordinary shares as at balance date, however, please see note 40 for 35,750,000 options issued subsequent to balance date.
Interests in rights:	Nil performance rights over ordinary shares

'Other current directorships' quoted above are current directorships for listed entities only and exclude 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.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 December 2019, and the number of meetings attended by each director were:

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

Held: represents the number of meetings held during the time the director held office. In addition to formal board meetings held, the Board has regular conferences that have not been designated formal board meetings.

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.

KMPs are those persons having authority and responsibility for planning, directing and controlling the activities of the relevant 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 KMPs

Details of the KMPs

The KMPs 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 Directors	
Diane Jones	Chief Executive Officer, Executive Director
David Wattel	Chief Executive Officer - NHF, Executive Director
Senior Executives	
Anthony Hersch	Chief Operating Officer
Craig Beaton	Chief Financial Officer
Sarika Merchant	Chief Financial Officer - NHF
Richard Cruz	Chief Operating Officer - NHF

Principles used to determine the nature and amount of remuneration

Remuneration & Nominations Committee ('R&NC')

Due 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 year ended 31 December 2019. Therefore, during the financial year ended 31 December 2019 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 and 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 year ended 31 December 2019, the Board's policy for determining the nature and amount of remuneration for KMP of the Group was approved by the Board prior to the financial year ended 31 December 2019. 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 directors fees

Role	US\$
Chairman	73,490
Non-Executive Director	52,493

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\$209,970 (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 Board. 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 year ended 31 December 2019, with a further 15% stretch at the discretion of the Board) of the senior executive participant's 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 year ended 31 December 2019, the Board engaged HRascent to review and advise on KMP remuneration, for both directors and senior executives. The advice is continuing and no fees were paid to HRascent during the financial year.

Voting and comments made at the Company's 2019 Annual General Meeting ('AGM')

At the 2019 AGM held on 4 April 2019, 98.80% of the votes received supported the adoption of the remuneration report for the financial period ended 31 December 2018.

Details of remuneration

Amounts of remuneration

Remuneration for the year 1 January 2019 to 31 December 2019.

	Salary and fees	Short-term benefits EIP and bonuses	Non- monetary	Post- employe- ment benefits Super- annuation	Long-term benefits Long service leave	Share- based payments Equity- settled	Total
12 months 31 December 2019	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<i>Executive directors:</i>							
Diane Jones	368,421	122,869	-	14,457	-	-	505,747
David Wattel	400,000	1,882	-	-	-	-	401,882
<i>Non-Executive Directors:</i>							
Tim Storey (i)	73,095	-	-	-	-	-	73,095
Anthony Murphy	47,681	-	-	4,530	-	-	52,211
<i>Other KMP:</i>							
Anthony Hersch	229,193	51,166	-	14,457	-	-	294,816
Craig Beaton	143,043	20,884	-	13,589	-	-	177,516
Sarika Merchant	274,748	36,882	5,149	-	-	-	316,779
Richard Cruz	230,000	51,882	5,842	-	-	-	287,724
	<u>1,766,181</u>	<u>285,565</u>	<u>10,991</u>	<u>47,033</u>	<u>-</u>	<u>-</u>	<u>2,109,770</u>

(i) Prolex Limited, an entity associated with Tim Storey, was paid US\$73,095 for directors fees (2018: US\$27,651).

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

		Salary and fees	Short-term benefits EIP and bonuses	Non- monetary	Post- employe- ment benefits Super- annuation	Long-term benefits Long service leave	Share- based payments Equity- settled	Total
6 months 2018	31 December 2018	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<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
		620,310	154,184	2,118	23,827	-	-	800,439

- (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.

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

Name	Fixed remuneration		Performance related - STIP		Performance related - LTIP	
	12 months	6 months	12 months	6 months	12 months	6 months
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
<i>Executive Directors:</i>						
Diane Jones	76%	70%	24%	30%	-	-
David Wattel	99%	98%	1%	2%	-	-
<i>Non-Executive Directors:</i>						
Tim Storey	100%	100%	-	-	-	-
Anthony Murphy	100%	100%	-	-	-	-
<i>Other KMP:</i>						
Anthony Hersch	83%	100%	17%	-	-	-
Craig Beaton	88%	100%	12%	-	-	-
Sarika Merchant	88%	68%	12%	32%	-	-
Richard Cruz	82%	53%	18%	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\$73,490 (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\$52,493 (A\$75,000) (US\$34,700 (A\$48,000) until 30 September 2018) per annum inclusive of superannuation.
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\$384,945 (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 NHF, 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\$269,462 (A\$385,000) (US\$244,965 (A\$350,000) to 31 December 2019) per annum inclusive of superannuation. Notice period is 3 months.
Name:	Craig Beatton
Title:	Chief Financial Officer
Agreement commenced:	9 September 2016
Term of agreement:	Ongoing
Details:	Craig is paid a gross salary of US\$173,225 (A\$247,500) (US\$157,478 (A\$225,000) to 31 December 2019) 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\$300,000 (US\$225,000 to 30 April 2019) per annum. No notice period.

Name:	Richard Cruz
Title:	Chief Operating Officer - NHF
Agreement commenced:	No signed agreement in place
Term of agreement:	No agreement in place and employment relationship is governed by general Arizonan law.
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 was entitled to receive a non-discretionary bonus pursuant to his employment agreement. However under an agreement dated 24 October 2019, this non-discretionary bonus was varied so that it is no longer payable. Previously, David was entitled to receive a US\$4.15m non-discretionary bonus paid equally over 5 quarterly payments (US\$0.83m per quarter) after satisfaction of certain collection criteria in respect of the NHF receivables.

Share-based compensation

Issue of shares

There were no shares issued to directors and other KMP as part of compensation during the year ended 31 December 2019.

Options

There were no options over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 31 December 2019.

Performance rights

There were no performance rights over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 31 December 2019.

General performance and link to remuneration policy

The earnings of the Group for the five years to 31 December 2019 are summarised below:

	31 December 2019 US\$'000	31 December 2018 US\$'000	30 June 2018 US\$'000	30 June 2017 US\$'000	30 June 2016 US\$'000
Total revenue and other income	323	4,554	5,918	3,570	(675)
EBITDA (excluding the litigation funding business)	1,723	120	2,857	1,929	(1,603)
Loss after income tax	(3,100)	(11,548)	(5,142)	(4,279)	(2,034)

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

	31 December 2019	31 December 2018	30 June 2018	30 June 2017	30 June 2016
Share price at financial year end (A\$)	0.06	0.07	0.07	0.20	0.23
Basic loss per share (cents per share)	(0.54)	(4.60)	(3.68)	(3.53)	(1.85)
Diluted loss per share (cents per share)	(0.54)	(4.60)	(3.68)	(3.53)	(1.85)

Short Term Incentive Plan

Financial year ended 31 December 2019 - STIP

KMPs were paid an incentive for the successful integration of the NHF business into the Group, to create a platform to achieve future growth and improved financial performance.

Name	Maximum STI \$	Actual STI \$	Awarded STI %
Diane Jones	122,869	122,869	100%
David Wattel	120,000	1,882	2%
Anthony Hersch	68,758	51,666	75%
Craig Beatton	42,913	20,884	49%
Richard Cruz	69,000	51,882	75%
Sarika Merchant	82,424	36,882	45%
	<u>505,964</u>	<u>286,065</u>	

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 acquisition of NHF. There were no other short term benefits granted during the financial period ending 31 December 2018 (please note the other incentives paid during the year to 31 December 2018 were accrued to the KMP prior to the purchase of NHF by the Group, although these amounts were paid by the Group).

Long Term Incentive Plan

There were no grants of equity under the LTIP during the financial period ended 31 December 2019 and 31 December 2018.

Additional disclosures relating to KMPs

Shareholding

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

	Balance at the start of the year	Received as part of rem- uneration	Additions	Disposals/ other	Balance at the end of the year
Tim Storey	6,603,014	-	-	-	6,603,014
Anthony Murphy	1,015,000	-	2,850,000	-	3,865,000
Diane Jones	3,574,098	-	337,733	-	3,911,831
David Wattel	107,548,701	-	-	-	107,548,701
Anthony Hersch	957,227	-	-	-	957,227
Craig Beatton	50,000	-	-	-	50,000
	<u>119,748,040</u>	<u>-</u>	<u>3,187,733</u>	<u>-</u>	<u>122,935,773</u>

During the financial year ended 31 December 2019, there were no shares in the Company held by directors and other KMPs other than those disclosed in the table above.

Performance rights

During the financial year ended 31 December 2019, there were no performance rights over ordinary shares in the Company held by directors and other KMPs.

Convertible bonds

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

	Balance at the start of the year	Received as part of rem- uneration	Additions	Disposals/ Other	Balance at the end of the year
Diane Jones	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500</u>

During the financial year ended 31 December 2019, there were no convertible bonds in the Company held by directors and other KMPs other than those disclosed in the table above.

Warrants

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

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

During the financial year ended 31 December 2019, there were no warrants over ordinary shares in the Company held by directors and other KMPs other than those disclosed in the table above.

Other transactions with KMPs 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 32 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 funds 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 32 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 31 December 2019.

The following options were issued after the date of this report, following the Company's extraordinary general meeting (refer to note 40).

Grant date	Expiry date	Exercise price*	Number under option
13/03/2020	28/09/2021	US\$0.175	24,000,000
13/03/2020	28/09/2022	US\$0.280	22,500,000
13/03/2020	28/09/2023	US\$0.420	25,000,000
			<u>71,500,000</u>

* Exercise price - A\$0.25, A\$0.40 and A\$0.60 respectively.

No person entitled to exercise the options had or has any right by virtue of the options to participate in any share issue of the Company or of any other body corporate.

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	Number under rights
28/09/2018*	28/09/2022	329,880,000
28/09/2018**	28/09/2022	122,863,636
		<u>452,743,636</u>

The exercise price of the warrants is A\$0.135 (2018: A\$0.14). As a result of the capital raising undertaken, the exercise price of the warrants was adjusted in accordance with ASX Listing Rule 6.22.2.

* 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 year ended 31 December 2019 and up to the date of this report.

Shares issued on the exercise of performance rights

There were no ordinary shares of LawFinance Limited issued on the exercise of performance rights during the year ended 31 December 2019 and up to the date of this report.

Shares issued on the exercise of warrants

There were no ordinary shares of LawFinance Limited issued on the exercise of warrants during the year ended 31 December 2019 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 29 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 29 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

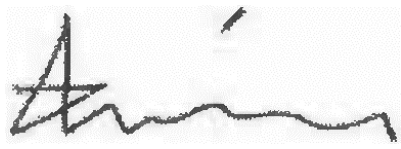
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

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



Tim Storey
Chairman

31 March 2020
Sydney

31 March 2020

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

Dear Directors

RE: LAWFINANCE 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 2019, 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 sincerely

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD



Martin Michalik
Director

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

		Consolidated	
		12 months	6 months
		31 December	31 December
		2019	2018
	Note	US\$'000	*Restated US\$'000
Revenue			
Net income from disbursement funding/medical lien funding	6	(925)	2,028
Other revenue	7	661	192
Total revenue		(264)	2,220
Non-supplier related cost of sales		206	(278)
Gross margin		(58)	1,942
Other income	8	582	1,744
Foreign exchange gain		5	590
Expenses			
Fair value gain on financial liabilities	9	20,828	-
Employee benefits expense	9	(5,760)	(1,727)
Depreciation and amortisation expense	9	(591)	(82)
Impairment of assets	20	(458)	(2,765)
Administration and other expenses	9	(3,210)	(2,553)
Business purchase/selling expenses	9	-	(5,768)
Finance costs	9	(17,249)	(5,333)
Loss before income tax benefit		(5,911)	(13,952)
Income tax benefit	10	2,811	2,404
Loss after income tax benefit for the period		(3,100)	(11,548)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		875	559
Other comprehensive income for the period, net of tax		875	559
Total comprehensive loss for the period		(2,225)	(10,989)
Loss for the period is attributable to:			
Non-controlling interest		(494)	(208)
Owners of LawFinance Limited		(2,606)	(11,340)
		(3,100)	(11,548)
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		(494)	(208)
Owners of LawFinance Limited		(1,731)	(10,781)
		(2,225)	(10,989)
		Cents	Cents
Basic loss per share	11	(0.54)	(4.60)
Diluted loss per share	11	(0.54)	(4.60)

*Refer to note 4 for detailed information on Restatement of comparatives.

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

		Consolidated	
		31 December 2019	31 December 2018
	Note	US\$'000	*Restated US\$'000
Assets			
Current assets			
Cash and cash equivalents	12	5,777	3,696
Financial assets at fair value through profit or loss	13	12,260	8,846
Financial assets at amortised cost	14	17,236	16,460
Other loans and receivables	15	1,654	2,423
Prepayments		165	67
Total current assets		<u>37,092</u>	<u>31,492</u>
Non-current assets			
Financial assets at fair value through profit or loss	13	9,923	12,418
Financial assets at amortised cost	14	55,895	59,053
Other loans and receivables	15	5	-
Investment held in joint operations	16	1,157	1,166
Property, plant and equipment	17	168	198
Right-of-use assets	18	1,443	-
Goodwill	19	40,504	40,539
Other intangibles	20	8,040	8,784
Deferred tax	10	10,340	6,789
Total non-current assets		<u>127,475</u>	<u>128,947</u>
Total assets		<u>164,567</u>	<u>160,439</u>
Liabilities			
Current liabilities			
Trade and other payables	21	9,322	11,649
Borrowings	22	66,894	19,602
Lease liabilities		369	-
Employee benefits		213	215
Total current liabilities		<u>76,798</u>	<u>31,466</u>
Non-current liabilities			
Borrowings	22	68,064	111,120
Lease liabilities		1,162	-
Provision for withholding tax		804	-
Total non-current liabilities		<u>70,030</u>	<u>111,120</u>
Total liabilities		<u>146,828</u>	<u>142,586</u>
Net assets		<u>17,739</u>	<u>17,853</u>
Equity			
Issued capital	23	40,924	37,649
Reserves	24	6,873	5,998
Accumulated losses		(28,930)	(26,310)
Equity attributable to the owners of LawFinance Limited		<u>18,867</u>	<u>17,337</u>
Non-controlling interest		(1,128)	516
Total equity		<u>17,739</u>	<u>17,853</u>

As there were no adjustments made as at 1 July 2018, the Group has elected not to show the 1 July 2018 statement of financial position.

*Refer to note 4 for detailed information on Restatement of comparatives.

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	-	-	(11,340)	(208)	(11,548)
Other comprehensive income for the period, net of tax	-	559	-	-	559
Total comprehensive income/(loss) for the period	-	559	(11,340)	(208)	(10,989)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 23)	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 - restated	<u>37,649</u>	<u>5,998</u>	<u>(26,310)</u>	<u>516</u>	<u>17,853</u>

Refer to note 4 for detailed information on Restatement of comparatives.

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 - restated	37,649	5,998	(26,310)	516	17,853
Adjustment for change in accounting policy (note 2)	-	-	(14)	-	(14)
Balance at 1 January 2019	37,649	5,998	(26,324)	516	17,839
Loss after income tax benefit for the period	-	-	(2,606)	(494)	(3,100)
Other comprehensive income for the period, net of tax	-	875	-	-	875
Total comprehensive income/(loss) for the period	-	875	(2,606)	(494)	(2,225)
<i>Transactions with owners in their capacity as owners:</i>					
Distributions to NCI	-	-	-	(1,150)	(1,150)
Issue of shares - placement (note 23)	3,499	-	-	-	3,499
Share issue costs	(224)	-	-	-	(224)
Balance at 31 December 2019	<u>40,924</u>	<u>6,873</u>	<u>(28,930)</u>	<u>(1,128)</u>	<u>17,739</u>

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

		Consolidated	
		12 months	6 months
		31 December	31 December
Note		2019	2018
		US\$'000	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	17,625	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	(13,989)	(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	3,499	5,093
	Share issue transaction costs	-	(55)
	Proceeds from borrowings - corporate	18,468	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	16,506	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

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 31 March 2020.

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.

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

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 exist. 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.

Note 2. Significant accounting policies (continued)

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.

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 US\$'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)
	<hr/>
Increase in opening accumulated losses as at 1 January 2019	(14)
	<hr/> <hr/>

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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Going concern

As at 31 December 2019 the Group had net current liabilities of US\$39,706,000 (31 December 2018: net current assets of US\$26,000). 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.

Note 2. Significant accounting policies (continued)

If, which is not expected, the completions of the litigation funding cases do not resolve favourably, the Group will be required to seek additional capital, either by way of additional facilities or equity. Again given the historical ability of the Group to raise such funds, the directors expect to be able to raise this additional capital if it is required.

On 11 March 2020 Coronavirus was declared a pandemic by the World Health Organisation, with resulting significant impacts on local and world economies. At this point in time given the rapidly evolving situation, the Group is unable to quantify the impact the Coronavirus pandemic will have on the future financial performance of its businesses. However, both cash collections and originations are likely to slow down as both the USA and Australian governments implement quarantine initiatives.

Whilst the Group continues to actively monitor the situation and its impacts, it is likely that cash collection covenants in the Group's financial facilities will not be met over the next few months. The Group is working with its financiers in advance of these potential challenges in order to obtain standstill and/or forbearance agreements during this time. At the date of this report none of the Group's lenders have demanded repayment of their loans and all have indicated a willingness to work with the Group during the Coronavirus pandemic. These discussions are on-going.

No adjustment has been made to the carrying value of the assets or liabilities of the Group to reflect the situation if the Group was 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 33.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of LawFinance Limited as at 31 December 2019 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.

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.

Note 2. Significant accounting policies (continued)

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 recognises revenue as follows:

Australian disbursement funding business

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 independent expert reports and medico-legal reports relating to the client's injuries.

The Group enters into a contract with the law firm to provide financing for legal disbursements in relation to their clients' legal matters ('Australian disbursement receivables'). As the contract with the law firm does not involve the provision of any good or service to the law firm, the Group concluded that the arrangement is not a contract with a customer under AASB 15 'Revenue from Contracts with Customers'.

Rather, as the contract is the provision of loan financing to the law firm it creates a financial asset that is within the scope of AASB 9 'Financial Instruments'.

Classification

The Group holds Australian disbursement receivables to collect their contractual cash flows. The contractual cash flows that arise from the arrangement with the legal firm do not solely relate to the repayment of principal and interest, primarily as they do not vary with time. Accordingly, Australian disbursement receivables are classified as at fair value through profit and loss.

Initial recognition and measurement

Australian disbursement receivables are 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). The transaction price of Australian disbursement receivables is the amount of cash paid to fund the legal disbursement costs.

The calculated fair value of the financial asset represents the invoice amount (where the final amount to be received by the Australian disbursement funding 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. In the case of a legal disbursement funding arrangement or medical lien funding arrangement, the calculated fair value of the loan receivable at initial recognition may differ from the transaction price.

No active market exists for these loans. Any difference between the calculated fair value and the transaction price (also known as a 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

Any subsequent changes in fair value on Australian disbursement receivables is recognised in the profit or loss statement and presented 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 any 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 either occurred or expired. Additional impairment gains or losses can arise if the amount or timing of cash flows differ from the expectation set at the previous period end.

US medical lien funding business

The US medical lien funding business (NHF) was acquired in September 2018 (see note 34 for further details). In this business, the Group purchases a lien or obtains a letter of protection over receivables of health care providers and hospitals associated with personal injury legal cases ('medical lien receivables').

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 take a lien over a specific invoice and notifies the law firm of the patient (who is the party ultimately responsible for paying the invoice) 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 is not a contract with a customer under AASB 15. As the transaction involves a payment for a right to future cash flows arising from an existing receivable, the Group has concluded that medical lien receivables are financial assets in the scope of AASB 9.

Classification

The Group holds medical lien receivables to collect their contractual cash flows. The contractual cash flows that arise from the lien arise from payments of the original invoice's face value and are therefore the repayment of its principal. Payments under the lien are required to be classified in line with the nature of the underlying payment. Accordingly, medical lien receivables are classified as at amortised cost. In addition, because it is expected that less than the full amount of the invoice will be received in settlement the medical lien receivables are considered to be 'purchased or originated credit impaired' ('POCI').

Initial recognition and measurement

Medical lien receivables are 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). The transaction price of medical lien receivables is the amount of cash paid to the medical practitioner for the lien and is considered to represent fair value. The initial fair value of medical lien receivables acquired in the NHF acquisition has been determined through valuation techniques that are consistent in approach to those used for Australian disbursement receivables (but with inputs appropriate for the nature of the medical lien receivables). The acquisition date fair value allocated from the overall purchase price of NHF is shown in note 34.

Subsequent measurement

Financial assets at amortised cost are adjusted from their initial fair value by accruing interest using the effective interest rate method. This is the interest rate that discounts expected future cash flows arising from the asset to its fair value on inception. At initial recognition, POCI assets do not carry a separate impairment allowance; instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate.

At each period end, the future expected cash flows now expected to arise from the asset are discounted at the original effective interest rate. Any changes in value arising from changes in the amount or timing of expected cash flows are recognised as an impairment change (gain or loss).

Note 2. Significant accounting policies (continued)

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 either occurred or expired. Additional impairment gains or losses can arise if the amount or timing of cash flows differ from the expectation set at the previous period end.

Rent

Rent revenue is recognised on a straight-line basis over the lease term.

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.

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

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

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Current and non-current classification

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

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

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

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

Note 2. Significant accounting policies (continued)

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 – Australian disbursement funding business

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. The Group's loan receivables from this funding business 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 Australian disbursement funding business model for managing its financial instruments and the non-contractual cash flow characteristics of its instruments.

The Australian disbursement funding financial asset at fair value through profit or loss is recognised initially at fair value. The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). In the case of a legal disbursement funding arrangement, the fair value of the loan receivable at initial recognition may differ from the transaction price.

The fair value of the financial asset represents the invoice amount (where the final amount to be received by the Australian disbursement funding is subject to change and conditional upon the outcome of decisions made by the relevant Court or the Insurer), adjusted for such factors as time value of money, discounts and write offs, and credit risk. The transaction price of the financial asset is the amount of cash paid to fund the legal disbursement costs.

No active market exists for these loans. The difference between the fair value and the transaction price (also known as day 1 margin) is deferred and the Group recognises the deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset.

Subsequent measurement

Loan receivables for the Australian disbursement funding 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.

Loan receivables at amortised cost – US medical lien receivables funding business

Initial recognition and measurement

Medical lien receivables are recognised initially at fair value.

Note 2. Significant accounting policies (continued)

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). The transaction price of medical lien receivables is the amount of cash paid to the medical practitioner for the lien and is considered to represent fair value. The initial fair value of medical lien receivables acquired in the NHF acquisition has been determined through valuation techniques that are consistent in approach to those used for Australian disbursement receivables (but with inputs appropriate for the nature of the medical lien receivables). The acquisition date fair value allocated from the overall purchase price of NHF is shown in note 34.

Subsequent measurement

Financial assets at amortised cost are adjusted from their initial fair value by accruing interest using the effective interest rate method. This is the interest rate that discounts expected future cash flows arising from the asset to its fair value on inception. At initial recognition, POCI assets do not carry a separate impairment allowance; instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate.

At each period end, the future expected cash flows now expected to arise from the asset are discounted at the original effective interest rate. Any changes in value arising from changes in the amount or timing expected cash flows are recognised as an impairment change (gain or loss).

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 either occurred or expired. Additional impairment gains or losses can arise if the amount or timing of cash flows differ from the expectation set at the previous period end.

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.

Investments and other financial assets

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the Group intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

Note 2. Significant accounting policies (continued)

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

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.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

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.

Note 2. Significant accounting policies (continued)

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 judgment 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 funded litigation is outstanding and pending a determination, litigation contracts in progress are carried at cost. Subsequent expenditure is capitalised when it meets all of the following criteria:

- demonstration of ability of the Group to complete the litigation so that the asset will be available-for-use and the benefits embodied in the asset will be realised;
- demonstration that the asset will generate future economic benefits;
- demonstration that the Group intends to complete the litigation;
- demonstration of the availability of adequate technical, financial and other resources to complete the litigation; and
- ability to measure reliably the expenditure attributable to the asset during the litigation contract in progress.

Successful judgments: 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 statement. Any future costs relating to the defence of an appeal by the defendant are expensed as incurred.

Unsuccessful judgments: 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 judgment, then future costs incurred by the Group on appeal are expensed as incurred.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

Note 2. Significant accounting policies (continued)

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.

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.

The NHF Founder Promissory Notes and Vendor Loan – NHF Founders have been booked at fair value. Refer to note 27.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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.

Note 2. Significant accounting policies (continued)

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.

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.

Note 2. Significant accounting policies (continued)

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

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

Business combinations

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

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

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

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

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

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

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

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of 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.

Note 2. Significant accounting policies (continued)

Diluted earnings per share

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

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

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

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

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

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

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.

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 year ended 31 December 2019. 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 revised Conceptual Framework for Financial Reporting

A revised Conceptual Framework for Financial Reporting has been issued by the AASB and is applicable for annual reporting periods beginning on or after 1 January 2020. This release impacts for-profit private sector entities that have public accountability that are required by legislation to comply with Australian Accounting Standards and other for-profit entities that voluntarily elect to apply the Conceptual Framework. Phase 2 of the framework is yet to be released which will impact for-profit private sector entities. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework, also applicable from 1 January 2020, includes such amendments. Where the Group has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards, the Group 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.

Note 3. Critical accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments, 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 judgments and estimates will seldom equal the related actual results. The judgments, 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.

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

Key judgments and estimates - Australian disbursement receivables

The key judgments applied in determining the accounting treatment for Australian disbursement receivables are:

- That the contract is a financing arrangement, not the provision of goods or services; and
- That cashflows arising from the contract are not solely principal and interest. This is on the ground that the quantum of payment does not vary with the passage of time.

Fair value measurement and carrying value measurement of loan receivables for JustKapital Finance

The key estimates applied are those used to determine the fair value of the Australian disbursement receivables. The fair values cannot be measured based on quoted prices in active markets. Instead, their fair value is measured using actuarial valuation techniques that take into account discount rates, credit risk and analysis of discounts and write offs (a Level 3 fair value measurement). The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment 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 27.

Key judgments and estimates - medical lien receivables

The key judgment applied in determining the accounting treatment for medical lien receivables is that the cash flows arising from the arrangement are solely repayment of the original invoiced amount.

The key estimates involved in determining the amortised cost of the medical lien receivables are:

- The fair value estimate applied in determining the allocation of the purchase price to acquired medical lien receivables for the NHF acquisition;
- The estimation of the expected amount and timing of cash flows arising from the medical lien receivables at their inception; and
- The re-estimation of the expected amount and timing of cash flows arising from the medical lien receivables at 31 December 2019 and 31 December 2018.

Carrying value measurement of loan receivables for NHF

Classifying loan receivables at amortised cost and the use of the credit-adjusted effective interest rate method requires the Group to estimate future cash flows from medical lien receivables at acquisition date and at each balance sheet date.

Estimating the timing and amount of cash flows for both the calculation of credit-adjusted effective interest rates ('CAEIRs') and subsequent re-measurement of the carrying amount of medical lien receivables requires significant management judgment regarding key assumptions.

The key underlying estimates that form the basis for amortised cost accounting are the quantum of the expected cash receipt from the lien and its expected timing, as the vast majority of medical liens are settled through one-off payments.

Cash flow forecasts are generated using statistical models prepared by an external firm of actuaries incorporating a number of factors including historical experience of the magnitude and timing of recoveries on accounts which have similar key attributes, which is determined at an invoice level basis.

The Group uses the information and data obtained on acquisition of the lien to determine expected cash flow forecasts and calculate the CAEIRs. The Group in later periods adjusts the carrying amount of the portfolios to reflect revised estimated cash flows. Events or changes in assumptions and management's judgment will affect the recognition of revenue in the period. Changes that could have a material impact on the estimate of future cash flows include our experience of recoveries from medical liens in the relevant jurisdiction, our success in negotiating levels of settlements and changes in the timing of payments due to State legislation and/or changing market practice.

Management also review the model on a portfolio basis to take into account external factors, which have impacted historical, or will impact future, performance and where necessary portfolios are calibrated to take into account these known factors. The assumptions and estimates made are specific to the particular characteristics of each State based portfolio.

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

If resolution of any uncertainty results in an increase or decrease in the carrying value of loan receivables, this is recognised in the income statement at that point in time. The estimated future cash flows are most sensitive to observed payment history, as well as timing of future cash flow receipt.

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 judgment. 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 19).

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 the underlying litigation 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 a 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 20).

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 and taking into account any adverse costs order insurance in respect of the liability.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgment 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.

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. Restatement of comparatives

Prior period restatement

In the period from acquisition in September 2018 to 31 December 2018, medical lien receivables were previously accounted for at fair value through profit or loss. However, the directors have reviewed the interpretations of AASB 9 and have changed accounting policy for these medical lien receivables, and they are now accounted for at amortised cost.

Note 4. Restatement of comparatives (continued)

Statement of profit or loss and other comprehensive income

Extract	Consolidated		
	6 months 31 December 2018 US\$'000 Reported	US\$'000 Adjustment	6 months 31 December 2018 US\$'000 Restated
Revenue			
Net income from disbursement funding/medical lien funding	2,149	(121)	2,028
Loss before income tax benefit	(13,831)	(121)	(13,952)
Income tax benefit	2,404	-	2,404
Loss after income tax benefit for the period	(11,427)	(121)	(11,548)
Other comprehensive income for the period, net of tax	559	-	559
Total comprehensive loss for the period	<u>(10,868)</u>	<u>(121)</u>	<u>(10,989)</u>
Loss for the period is attributable to:			
Non-controlling interest	(200)	(8)	(208)
Owners of LawFinance Limited	<u>(11,227)</u>	<u>(113)</u>	<u>(11,340)</u>
	<u>(11,427)</u>	<u>(121)</u>	<u>(11,548)</u>
Total comprehensive loss for the period is attributable to:			
Non-controlling interest	(200)	(8)	(208)
Owners of LawFinance Limited	<u>(10,668)</u>	<u>(113)</u>	<u>(10,781)</u>
	<u>(10,868)</u>	<u>(121)</u>	<u>(10,989)</u>
	Cents Reported	Cents Adjustment	Cents Restated
Basic loss per share	(4.56)	(0.04)	(4.60)
Diluted loss per share	(4.56)	(0.04)	(4.60)

Statement of financial position at the beginning of the earliest comparative period

When there is a restatement of comparatives, it is mandatory to provide a third statement of financial position at the beginning of the earliest comparative period, being 1 July 2018. However, as there were no adjustments made as at 1 July 2018, the Group has elected not to show the 1 July 2018 statement of financial position.

Note 4. Restatement of comparatives (continued)

Statement of financial position at the end of the earliest comparative period

Extract	Consolidated	
	31 December 2018 US\$'000 Reported	31 December 2018 US\$'000 Restated
	US\$'000 Adjustment	
Assets		
Current assets		
Loans and other receivables	29,883	(29,883)
Financial assets at fair value through profit or loss	-	8,846
Financial assets at amortised cost	-	16,460
Other loans and receivables	-	2,423
Total current assets	33,646	(2,154)
Non-current assets		
Financial assets at fair value through profit or loss	-	12,418
Financial assets at amortised cost	-	59,053
Loans and other receivables	69,438	(69,438)
Total non-current assets	126,914	2,033
Total assets	160,560	(121)
Net assets	17,974	(121)
Equity		
Accumulated losses	(26,197)	(113)
Equity attributable to the owners of LawFinance Limited	17,450	(113)
Non-controlling interest	524	(8)
Total equity	17,974	(121)

Note 5. 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 (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Note 5. Operating segments (continued)

Operating segment information

	JustKapital Finance US\$'000	National Health Finance US\$'000	Other US\$'000	Total US\$'000
Consolidated - 12 months 31 December 2019				
Revenue				
Net income from disbursement funding/medical lien funding	3,252	(4,177)	-	(925)
Other revenue	30	181	450	661
	3,282	(3,996)	450	(264)
Other income	-	-	587	587
Total revenue	3,282	(3,996)	1,037	323
Segment result	2,127	(404)	10,206	11,929
Depreciation and amortisation	(129)	(456)	(6)	(591)
Finance costs	(2,135)	(8,867)	(6,247)	(17,249)
Profit/(loss) before income tax benefit	(137)	(9,727)	3,953	(5,911)
Income tax benefit				2,811
Loss after income tax benefit				(3,100)
Assets				
Segment assets	27,039	121,661	15,867	164,567
Total assets				164,567
Liabilities				
Segment liabilities	22,546	72,767	51,515	146,828
Total liabilities				146,828
Consolidated - 6 months 31 December 2018				
Revenue				
Net income from disbursement funding/medical lien funding	2,008	20	-	2,028
Other revenue	94	-	98	192
Total revenue	2,102	20	98	2,220
Other income	-	600	1,734	2,334
Total revenue	2,102	620	1,832	4,554
Segment result	1,185	(1,065)	(8,657)	(8,537)
Depreciation and amortisation	(25)	(6)	(51)	(82)
Finance costs	(1,064)	(1,914)	(2,355)	(5,333)
Profit/(loss) before income tax benefit	96	(2,985)	(11,063)	(13,952)
Income tax benefit				2,404
Loss after income tax benefit				(11,548)
Assets				
Segment assets	26,477	118,054	15,908	160,439
Total assets				160,439
Liabilities				
Segment liabilities	21,253	61,158	60,175	142,586
Total liabilities				142,586

Note 5. Operating segments (continued)

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	6 months		
	31 December	31 December	31 December	31 December
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Australia	3,732	2,200	12,078	12,279
United States	(3,996)	20	39,235	38,408
	(264)	2,220	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 6. Net income from disbursement funding/medical lien funding

	Consolidated	
	12 months	6 months
	31 December	31 December
	2019	2018
	US\$'000	Restated US\$'000
Disbursement funding - Australia:		
Fair value gain on financial assets at fair value through profit or loss	3,252	2,008
	3,252	2,008
Medical lien funding - USA:		
Interest income at amortised cost	2,687	67
Net impairment losses on financial assets at amortised cost	(8,402)	(124)
Net settlement gains on financial assets at amortised cost	1,538	77
	(4,177)	20
	(925)	2,028

Due to the portfolio calculation approach used for the medical lien funding receivables acquired as part of the business combination with NHF (refer to note 34) (\$46,956,000 as at 31 December 2019), it is not possible to accurately separate impairment gains/losses from gains/losses arising on settlement of those receivables. The net total of these losses was \$2,172,000 (The net total of these gains for the 6 months ending 31 December 2018: \$29,000).

Note 7. Other revenue

	Consolidated	
	12 months	6 months
	31 December	31 December
	2019	2018
	US\$'000	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	-
	<hr/>	<hr/>
Other revenue	661	192
	<hr/>	<hr/>

Note 8. Other income

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

Note 9. Expenses

	Consolidated 12 months 31 December 2019 US\$'000	6 months 31 December 2018 US\$'000
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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)	-
	<u>(20,828)</u>	<u>-</u>

Employee benefits expense

Defined contribution superannuation expense	72	34
Share-based payments expense	-	27
Employee benefits expense excluding superannuation	<u>5,688</u>	<u>1,666</u>
	<u>5,760</u>	<u>1,727</u>

Depreciation and amortisation expense

Depreciation - property, plant and equipment	117	80
Depreciation - right-of-use assets	232	-
Amortisation - other intangibles	<u>242</u>	<u>2</u>
	<u>591</u>	<u>82</u>

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	<u>531</u>	<u>251</u>
	<u>3,210</u>	<u>2,553</u>

Finance costs

Interest expense and line fees	17,183	5,333
Interest - right-of-use assets	<u>66</u>	<u>-</u>
	<u>17,249</u>	<u>5,333</u>

Business purchase/selling expenses

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

Note 10. Income tax

	Consolidated 12 months 31 December 2019 US\$'000	Consolidated 6 months 31 December 2018 US\$'000
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	(5,911)	(13,952)
Tax at the statutory tax rate of 27.5%	(1,626)	(3,837)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Expenses not deductible	841	481
Share-based payments	-	855
Income not assessable	(3,297)	-
Bad debts	49	80
Adjustment recognised for prior periods	-	1
	(4,033)	(2,420)
Difference in overseas tax rates	1,033	16
Exchange differences	189	-
Income tax benefit	(2,811)	(2,404)

	Consolidated 31 December 2019 US\$'000	Consolidated 31 December 2018 US\$'000
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Tax losses	7,957	4,866
Other temporary differences	2,519	1,317
Loans and other receivables	2,570	2,559
Set off deferred tax liability	(2,706)	(1,953)
Deferred tax asset	10,340	6,789

	Consolidated 31 December 2019 US\$'000	Consolidated 31 December 2018 US\$'000
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Property, plant and equipment	111	2
Intangibles	-	124
Prepayments	1	2
Work in progress	1,688	1,825
Other temporary differences	906	-
Set off deferred tax asset	(2,706)	(1,953)
Deferred tax liability	-	-

Note 10. 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 11. Earnings per share

	Consolidated	
	12 months	6 months
	31 December	31 December
	2019	2018
	US\$'000	US\$'000
Loss after income tax	(3,100)	(11,548)
Non-controlling interest	494	208
Loss after income tax attributable to the owners of LawFinance Limited	<u>(2,606)</u>	<u>(11,340)</u>
	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	<u>483,849,508</u>	<u>246,301,947</u>
	Cents	Cents
Basic loss per share	(0.54)	(4.60)
Diluted loss per share	(0.54)	(4.60)

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 12. Cash and cash equivalents

	Consolidated	
	31 December	31 December
	2019	2018
	US\$'000	US\$'000
<i>Current assets</i>		
Cash at bank and on hand	<u>5,777</u>	<u>3,696</u>

Short-term cash deposits are used as bank guarantee security. Refer to note 30.

Note 13. Financial assets at fair value through profit or loss

	Consolidated 31 December 2019 US\$'000	31 December 2018 US\$'000
<i>Current assets</i>		
Loan receivables - disbursement funding - Australia (gross)	16,877	12,599
Fair value movement	(3,198)	(2,634)
Unrecognised day 1 margin	(719)	(1,119)
Allowance for expected credit losses	(700)	-
	<u>12,260</u>	<u>8,846</u>
<i>Non-current assets</i>		
Loan receivables - disbursement funding - Australia (gross)	14,733	18,125
Fair value movement	(2,791)	(3,789)
Unrecognised day 1 margin	(2,019)	(1,918)
	<u>9,923</u>	<u>12,418</u>
	<u><u>22,183</u></u>	<u><u>21,264</u></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 include US\$nil (31 December 2018: US\$nil) which are past due but not impaired. The Company believes the amounts are fully recoverable.

Note 14. Financial assets at amortised cost

	Consolidated 31 December 2019 US\$'000	31 December 2018 Restated US\$'000
<i>Current assets</i>		
Loan receivables - medical lien funding - USA (gross)	46,043	38,041
Allowance for expected credit losses	(28,807)	(21,581)
	<u>17,236</u>	<u>16,460</u>
<i>Non-current assets</i>		
Loan receivables - medical lien funding - USA (gross)	149,310	136,481
Allowance for expected credit losses	(93,415)	(77,428)
	<u>55,895</u>	<u>59,053</u>
	<u><u>73,131</u></u>	<u><u>75,513</u></u>

Medical lien funding receivables are considered purchased credit impaired assets under accounting standards. They are initially recognised with an allowance for expected credit losses reflecting estimated lifetime credit losses. This reflects an estimate of both the probability that a settlement will not recover the entire face value of the underlying receivable and the probability that no settlement is obtained.

Note 15. Other loans and receivables

	Consolidated 31 December 2019 US\$'000	31 December 2018 US\$'000
<i>Current assets</i>		
Other trade receivables	70	180
Short-term loans	283	488
	<u>353</u>	<u>668</u>
Other receivables	1,301	1,755
	<u>1,654</u>	<u>2,423</u>
<i>Non-current assets</i>		
Other receivables	5	-
	<u>1,659</u>	<u>2,423</u>

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

Note 16. Investment held in joint operations

	Consolidated 31 December 2019 US\$'000	31 December 2018 US\$'000
<i>Non-current assets</i>		
Investment held in joint operation	<u>1,157</u>	<u>1,166</u>

The Group has a material joint operation with Longford Capital Management LP ('Longford Capital') where the Group coinvests with Longford Capital in 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 the case.

Note 17. Property, plant and equipment

	Consolidated 31 December 2019 US\$'000	31 December 2018 US\$'000
<i>Non-current assets</i>		
Leasehold improvements - at cost	57	57
Less: Accumulated depreciation	(57)	(57)
	<u>-</u>	<u>-</u>
Plant and equipment - at cost	433	345
Less: Accumulated depreciation	(265)	(147)
	<u>168</u>	<u>198</u>
	<u>168</u>	<u>198</u>

Note 17. 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:

Consolidated	Leasehold improve- ments US\$'000	Plant and equipment US\$'000	Total US\$'000
Balance at 1 July 2018	28	77	105
Additions	17	3	20
Additions through business combinations (note 34)	-	157	157
Exchange differences	(1)	(3)	(4)
Depreciation expense	(44)	(36)	(80)
Balance at 31 December 2018	-	198	198
Additions	-	90	90
Exchange differences	-	(3)	(3)
Depreciation expense	-	(117)	(117)
Balance at 31 December 2019	-	168	168

Note 18. Right-of-use assets

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

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 two and seven years, with, in some cases, options to extend.

Note 19. Goodwill

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

Note 19. Goodwill (continued)

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

	Australian disburse- ment 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	<u>4,159</u>	<u>36,345</u>

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.

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.

Note 19. Goodwill (continued)

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 20. Other intangibles

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

Note 20. 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	<u>4</u>	<u>1,674</u>	<u>6,362</u>	<u>8,040</u>

* These additions are net of any co-funder contributions, and include impairments.

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:

- 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;
- 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
- 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 21. Trade and other payables

	Consolidated	
	31 December 2019	31 December 2018
	US\$'000	US\$'000
<i>Current liabilities</i>		
Trade and other payables	6,603	7,556
Accruals	2,650	3,992
Goods and services tax payable	69	101
	<u>9,322</u>	<u>11,649</u>

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

Refer to note 26 for further information on financial instruments.

Note 22. Borrowings

	Consolidated	
	31 December 2019	31 December 2018
	US\$'000	US\$'000
<i>Current liabilities</i>		
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	-
Syndicated acquisition facility (xv)	29,396	-
Insurance financing - USA	55	49
Credit cards	103	414
	<u>66,894</u>	<u>19,602</u>
<i>Non-current liabilities</i>		
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)	-	29,644
Vendor loan - NHF Founders (vi)	-	12,546
Other NHF subordinated debt (x)	1,750	-
	<u>68,064</u>	<u>111,120</u>
	<u>134,958</u>	<u>130,722</u>

Refer to note 26 for further information on financial instruments.

Note 22. Borrowings (continued)

(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 40).

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

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

The facility is subject to a number of covenants. A breach of a covenant may require the Group to repay the bond earlier. No covenants have been breached as at 31 December 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. \$8,843,000 was repayable on 15 March 2020 and \$2,799,000 is repayable on 31 Dec 2020. Ongoing interest payable was 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 (see note 40).

(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: 15% 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).

Note 22. Borrowings (continued)

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 (see note 40).

(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 year, if the Company issues various options to the Vendors by 31 December 2020 (see note 40). The options to be issued were approved by shareholders at the extraordinary general meeting on 10 March 2020, and the options were issued on 13 March 2020. The balance due as at 31 December 2019 of \$122,000 (31 December 2018: \$12,546,000) represents the value of the options issued to the Vendors. 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 year, if the Company issues various options to the Vendors by 31 December 2020 (see note 40). The options to be issued were approved by shareholders at the extraordinary general meeting on 10 March 2020, and the options were issued on 13 March 2020. 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.

(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) on \$1,132,000 (A\$1,618,000) and 18% per annum (31 December 2018: nil) on \$120,000 (A\$171,000). 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).

Note 22. Borrowings (continued)

(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. Certain covenants were breached during the year ended 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.

(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 year ended 31 December 2019. The Group continues to negotiate a forbearance agreement with the Majority Lender of the Syndicated acquisition facility. Despite the fact that the facility is repayable on 28 September 2022, and no facility members have demanded it be repaid, as several covenants were breached during the current reporting period, it has been reclassified as a current liability.

Note 22. Borrowings (continued)

Financing arrangements

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

	Consolidated	
	31 December 2019	31 December 2018
	US\$'000	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
	<u>137,392</u>	<u>155,893</u>
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
	<u>92,446</u>	<u>111,120</u>
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	-	-
	<u>44,946</u>	<u>44,773</u>

* 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 23. Issued capital

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

Note 23. 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	<u>561,760,467</u>		<u>40,924</u>

* 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.

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.

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.

Note 23. Issued capital (continued)

The capital risk management policy remains unchanged from the 31 December 2018 Annual Report.

Note 24. Reserves

	Consolidated 31 December 2019 US\$'000	31 December 2018 US\$'000
Foreign currency reserve	877	2
Share-based payments reserve	5,996	5,996
	<u>6,873</u>	<u>5,998</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of Australian operations to United States dollars.

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 2018	(557)	1,741	1,184
Foreign currency translation	559	-	559
Share-based payments	-	4,255	4,255
Balance at 31 December 2018	2	5,996	5,998
Foreign currency translation	875	-	875
Balance at 31 December 2019	<u>877</u>	<u>5,996</u>	<u>6,873</u>

Note 25. Dividends

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

Note 26. 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.

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.

Note 26. Financial instruments (continued)

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 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 2019	31 December 2018	31 December 2019	31 December 2018
	US\$'000	US\$'000	US\$'000	US\$'000
Consolidated				
Australian dollars	25,207	17,195	(74,064)	(79,492)
United States dollars	77,539	78,810	(72,767)	(61,056)
	<u>102,746</u>	<u>96,005</u>	<u>(146,831)</u>	<u>(140,548)</u>

The Group had net liabilities denominated in foreign currencies of US\$44,085,000 (US\$102,746,000 less liabilities of US\$146,831,000) as at 31 December 2019 (31 December 2018: net liabilities of US\$44,543,000 (US\$96,005,000 less liabilities of US\$140,548,000)).

		USD strengthened			USD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Consolidated - 31 December 2019	% change	US\$'000	US\$'000	% change	US\$'000	US\$'000
Australian dollars	10%	<u>4,886</u>	<u>4,886</u>	10%	<u>(4,886)</u>	<u>(4,886)</u>
		USD strengthened			USD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Consolidated - 31 December 2018	% change	US\$'000	US\$'000	% change	US\$'000	US\$'000
Australian dollars	10%	<u>6,230</u>	<u>6,230</u>	10%	<u>(6,230)</u>	<u>(6,230)</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 26. 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 2019 Weighted average interest rate %	31 December 2019 Balance US\$'000	31 December 2018 Weighted average interest rate %	31 December 2018 Balance US\$'000
Consolidated				
Vendor loan - Australian disbursement funding business	11.00%	315	7.50%	824
Convertible bonds payable	11.50%	3,500	11.50%	3,529
Lucerne Group combined loan	13.44%	11,642	13.50%	8,548
Lucerne Group facility - US medical lien funding business	16.89%	12,122	15.00%	5,238
Paradise Diversified Holdings Limited Partnership	30.00%	4,163	-	-
Vendor loan - NHF Founders	-	122	13.00%	12,546
Other NHF subordinated debt	24.00%	1,180	-	-
Other NHF subordinated debt	12.00%	1,000	12.00%	1,000
Other NHF subordinated debt	13.47%	4,750	-	-
Hunter Premium - Insurance financing	6.21%	33	-	-
Pitt Capital Partners Limited	15.00%	1,252	-	-
Washington H. Soul Pattinson & Company Limited	13.00%	2,275	-	-
Insurance financing	6.58%	55	10.00%	49
Credit cards	17.04%	103	17.86%	414
Assetsecure Pty Limited loan	8.79%	21,447	8.95%	20,028
Atalaya Capital Management	14.25%	41,603	14.25%	39,902
NHF Founder Promissory Notes	-	-	-	9,000
Syndicated acquisition facility	13.00%	29,396	13.00%	29,644
Cash and cash equivalents	0.04%	(5,777)	0.04%	(3,696)
Net exposure to cash flow interest rate risk		<u>129,181</u>		<u>127,026</u>

The weighted average interest rate for the period ended 31 December 2019 was 14.29% (31 December 2018: 11.93%).

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\$1,317,000 (2018: US\$1,243,000) 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.

Note 26. Financial instruments (continued)

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.

Receivables for the disbursement funding division are with licensed solicitors as the counterparty. The Group transacts with in excess of 130 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 firms' trust accounts (which are periodically audited by the Law Society).

Receivables for the short-term loans division are with licensed 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 successfully concluding. The Group assesses the Defendants' capacity to pay 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 2,000 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 firms' 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 and taking into account the undrawn amounts available from the Group financing facilities.

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:

	Consolidated	
	31 December 2019	31 December 2018
	US\$'000	US\$'000
Assetsecure Pty Limited loan (subject to certain calculations, see note 22)	6,549	4,675
Atalaya Capital Management (subject to certain calculations, see note 22)	38,397	40,098
	<u>44,946</u>	<u>44,773</u>

Note 26. Financial instruments (continued)

Remaining contractual maturities

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

Consolidated - 31 December 2019	Weighted average interest rate %	1 year or less US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000	Remaining contractual maturities US\$'000
Non-interest bearing:						
Trade and other payables	-	6,672	-	-	-	6,672
Interest bearing:						
Vendor loan - Australian disbursement funding business	11.00%	315	-	-	-	315
Convertible bonds payable	11.50%	3,588	-	-	-	3,588
Lucerne Group combined loan	13.44%	12,064	-	-	-	12,064
Lucerne Group facility - US medical lien funding business	16.89%	10,279	3,495	-	-	13,774
Paradise Diversified Holdings Limited Partnership	30.00%	4,895	-	-	-	4,895
Vendor loan - NHF Founders	-	122	-	-	-	122
Other NHF subordinated debt	24.00%	1,298	-	-	-	1,298
Other NHF subordinated debt	12.00%	120	120	1,360	-	1,600
Other NHF subordinated debt	13.47%	3,642	1,884	-	-	5,526
Hunter Premium - Insurance financing	6.21%	33	-	-	-	33
Pitt Capital Partners Limited	15.00%	1,346	-	-	-	1,346
Washington H. Soul Pattinson & Company Limited	13.00%	2,422	-	-	-	2,422
Insurance financing	6.58%	56	-	-	-	56
Credit cards	17.04%	123	-	-	-	123
Assetsecure Pty Limited loan	8.79%	1,871	1,866	22,842	-	26,579
Atalaya Capital Management	14.25%	5,945	5,928	43,471	-	55,344
Syndicated acquisition facility	13.00%	3,832	3,821	32,233	-	39,886
Lease liabilities	6.76%	104	513	401	1,046	2,064
		<u>58,727</u>	<u>17,627</u>	<u>100,307</u>	<u>1,046</u>	<u>177,707</u>

Note 26. Financial instruments (continued)

Consolidated - 31 December 2018	Weighted average interest rate %	1 year or less US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000	Remaining contractual maturities US\$'000
Non-interest bearing:						
Trade and other payables	-	7,657	-	-	-	7,657
NHF Founder Promissory Notes	-	-	9,000	-	-	9,000
Interest bearing:						
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
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
Insurance financing	10.00%	53	-	-	-	53
Credit cards	17.86%	455	-	-	-	455
		<u>40,719</u>	<u>41,160</u>	<u>94,900</u>	<u>-</u>	<u>176,779</u>

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

Note 27. 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
<i>Assets measured at fair value:</i>				
Loan receivables - disbursement funding - Australia	-	-	24,921	24,921
Total assets	-	-	24,921	24,921
<i>Liabilities measured at fair value:</i>				
Vendor Loan – NHF Founders	-	-	122	122
Total liabilities	-	-	122	122

Note 27. Fair value measurement (continued)

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 - Australia	-	-	24,301	24,301
Total assets	-	-	24,301	24,301

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.

The key assumptions include:

- The discount rate is calculated at a margin of 4% over the 3 year non-financial corporate A-rate bond. The discount rate is 5.67% (2018: 6.89%); and
- The write off assumption allows for cases closed without collection of any amounts on the invoices and the discount assumption reflects discounts given to legal firms for reasons such as early settlements of invoices or the application of discretion by Management. The overall write off/discount rate applied is 11.9% (2018: 11.4%).

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 27. 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
Change in assumption	-	106	106
Cash disbursements in relation to new loans	4,762	-	4,762
New day 1 margin	-	(1,308)	(1,308)
Cash collections - disbursement funding	(4,726)	-	(4,726)
Gains or losses recognised in profit or loss	1,928	-	1,928
Amortisation of day 1 margin	-	1,432	1,432
Exchange rate movement	(1,054)	146	(908)
Balance at 31 December 2018	24,301	(3,037)	21,264
Cash disbursements in relation to new loans	8,007	-	8,007
New day 1 margin	-	(2,407)	(2,407)
Cash collections - disbursement funding	(10,284)	-	(10,284)
Gains or losses recognised in profit or loss	3,210	-	3,210
Amortisation of day 1 margin	-	2,681	2,681
Exchange rate movement	(313)	25	(288)
Balance at 31 December 2019	<u>24,921</u>	<u>(2,738)</u>	<u>22,183</u>

This reconciliation excludes other receivables and short-term loans.

The Loan receivables - disbursement funding - Australia (gross) balance was US\$31,610,000 as at 31 December 2019 (31 December 2018: US\$30,724,000).

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 agreed, subject to shareholder approval, 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). Shareholder approval was received at the company's EGM on 10 March 2020, with all resolutions being voted in favour of.

Subsequently, the options were issued on 13 March 2020 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.

The value of the options 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.

Note 27. Fair value measurement (continued)

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	<u>21,546</u>	<u>(20,828)</u>	<u>(596)</u>	<u>122</u>

Note 28. 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:

	Consolidated 12 months 31 December 2019 US\$	6 months 31 December 2018 US\$
Short-term employee benefits	2,062,737	776,612
Post-employment benefits	47,033	23,827
	<u>2,109,770</u>	<u>800,439</u>

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

Note 29. 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 12 months 31 December 2019 US\$	6 months 31 December 2018 US\$
<i>Audit services - Stantons</i>		
Audit or review of the financial statements	<u>133,350</u>	<u>125,580</u>
<i>Other services - Stantons</i>		
Preparation of the Investigating Accountant's Report	-	41,559
Other accounting services	-	6,547
	<u>-</u>	<u>48,106</u>
	<u>133,350</u>	<u>173,686</u>
<i>Audit services - SKP</i>		
Audit or review of the financial statements	<u>124,710</u>	<u>100,965</u>

Note 30. 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 was 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.

This dispute was settled between the parties on 27 March 2020 with no admission as to liability. The Group has agreed to issue the seller 14,000,000 shares at an agreed value of A\$0.064 per share (A\$896,000) and release claims to certain amounts currently in a solicitor's trust account. The Company will receive approximately A\$750,000 from funds currently held in trust.

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.

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 patient. NHF also has an indemnity clause with the medical provider. As such, NHF believes there will be no amounts paid to the plaintiff.

Note 31. Commitments

	Consolidated	
	31 December 2019	31 December 2018
	US\$'000	US\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	312
One to five years	-	209
	<u>-</u>	<u>521</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 32. Related party transactions

Parent entity

LawFinance Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 35.

Key management personnel

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	12 months 31 December 2019	6 months 31 December 2018
	US\$	US\$
Other related parties - expenses:		
Lucerne Group - interest on borrowings	2,468,636	946,158
Lucerne Group - underwriting fees	110,234	-
Multus Medical LLC - cost of sales	78,838	6,850
David Wattel - interest on vendor loan	-	208,140
Mark Siegel - interest on vendor loan	-	208,140
Diane Jones - Convertible Bond Interest	3,996	2,090
Other related parties - income:		
Multus Medical LLC - office rental	83,313	17,500
Multus Medical LLC - staff and administration costs	28,477	6,178
Wattel & York - staff costs	41,090	3,385
David Wattel - interest adjustment on vendor loan	200,020	-
Mark Siegel - interest adjustment on vendor loan	200,020	-

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.

Note 32. Related party transactions (continued)

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:

	Consolidated	
	31 December 2019	31 December 2018
	US\$	US\$
Current receivables from other related parties:		
Multus Medical LLC	18,995	44,955
Wattel & York	3,413	-
Current payables to other related parties:		
Lucerne Group	275,404	225,813
Wattel & York	4,400	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 and the NHF Vendors/Founders as detailed in note 22. Diane Jones is also a convertible note holder as detailed in the Directors Report.

Terms and conditions

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

Note 33. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	12 months	6 months
	31 December 2019	31 December 2018
	US\$'000	US\$'000
Profit/(loss) after income tax	10,155	(8,060)
Total comprehensive income/(loss)	10,155	(8,060)

Note 33. Parent entity information (continued)

Statement of financial position

	Parent 31 December 2019 US\$'000	31 December 2018 US\$'000
Total current assets	2,577	519
Total assets	85,461	78,087
Total current liabilities	50,035	15,222
Total liabilities	51,411	57,412
Net assets	34,050	20,675
Equity		
Issued capital	40,924	37,649
Foreign currency reserve	(3,646)	(3,591)
Share-based payments reserve	5,996	5,996
Accumulated losses	(9,224)	(19,379)
Total equity	34,050	20,675

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

Except as described in note 22 and note 30, the parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2019 and 31 December 2018.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2019 and 31 December 2018 other than those disclosed in note 30.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2019 and 31 December 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 34. 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.

Note 34. Business combinations (continued)

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
Customer relationships	1,913
Trade and other payables	(5,386)
Notes payables	(20,703)
Financing facility	(39,687)
Non-controlling interest	(903)
	<hr/>
Net assets acquired	16,655
Goodwill	36,345
	<hr/>
Acquisition-date fair value of the total consideration transferred	53,000
	<hr/> <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/> <hr/>
Acquisition costs expensed to profit or loss	5,768
	<hr/> <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/> <hr/>

Note 35. 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 / (Date of acquisition)	Ownership interest	
		31 December 2019	31 December 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%

Note 35. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation / (Date of acquisition)	Ownership interest	
		31 December 2019	31 December 2018
		%	%
National Health Finance HoldCo, LLC	USA	100.00%	100.00%
JustKapital Litigation Partners (NZ) Limited*	New Zealand	100.00%	100.00%
JustKapital Insolvency Services Pty Limited**	Australia	-	100.00%
LongKapital Pty Limited**	Australia	-	100.00%
JustKapital No 1 Pty Limited**	Australia	-	100.00%
MML Services Pty Limited***	Australia	-	100.00%
Subsidiaries of National Health Finance HoldCo, LLC:			
Accident Medical Funding, LLC	USA	71.00%	70.00%
Apex Injury Network, LLC	USA	75.00%	75.00%
Arizona Injury Medical Specialists, LLC	USA	75.00%	75.00%
Ark-La-Tex Injury Network, LLC	USA	75.00%	75.00%
Atlanta Health Funding, LLC	USA	75.00%	75.00%
Auto Medical Funding, LLC	USA	75.00%	75.00%
Bakersfield Injury Network, LLC	USA	75.00%	72.50%
Balboa Medical Funding, LLC	USA	75.00%	75.00%
Bay Area Medical Finance, LLC	USA	75.00%	74.00%
Bayou Health Finance, LLC	USA	99.00%	99.00%
California Health Finance, LLC	USA	50.50%	50.50%
California Legal Medical Funding, LLC	USA	68.00%	68.00%
Central Coast Injury Network, LLC	USA	72.50%	72.50%
Classic City Injury Solutions, LLC	USA	72.50%	72.50%
Coast Medical Finance, LLC	USA	75.00%	72.50%
Complete Health Network, LLC	USA	48.50%	48.50%
Cordova Injury Network, LLC	USA	75.00%	75.00%
Desert Sky Medical Funding, LLC	USA	75.00%	75.00%
DFW Medical Finance, LLC	USA	90.50%	90.50%
East Bay Medical Finance, LLC	USA / (08 February 2019)	72.50%	-
Florida Healthcare Finance, LLC	USA / (25 January 2019)	75.00%	-
Fresno Injury Treatment Network, LLC	USA	75.00%	72.50%
Georgia Injury Treatment Network, LLC	USA	71.50%	70.00%
Great Salt Lake Medical Finance, LLC	USA	89.00%	88.00%
Greater Houston Medical Funding, LLC	USA	75.00%	75.00%
GTI Medical Funding, LLC	USA	75.00%	75.00%
HALO Medical Funding, LLC	USA	75.00%	75.00%
Healthcare Affiliates of Florida, LLC	USA / (13 March 2019)	75.00%	-
Hospital Capital Partners, LLC	USA	80.00%	75.00%
Illinois Injury Solutions, LLC	USA	87.00%	75.00%
Injury Health Alliance, LLC	USA	70.00%	70.00%
Injury Medical Network, LLC	USA	67.00%	67.00%
Inland Empire Medical Funding, LLC	USA	75.00%	72.50%
Kentucky Injury Network, LLC	USA	75.00%	75.00%
Lone Star Lien Solutions, LLC	USA	55.00%	55.00%
Louisiana HealthNet Solutions, LLC	USA	73.00%	73.00%
Medical Financial Group, LLC	USA	70.00%	70.00%
Metroplex Medical Finance, LLC	USA	70.00%	70.00%
Monument Medical Funding, LLC	USA	75.00%	72.50%
Mountain Medical Finance, LLC	USA	78.00%	78.00%
Mountain West Medical Funding, LLC	USA	75.00%	72.50%
MSP Payment Solutions, LLC	USA	70.00%	70.00%
Nashville Injury Network, LLC	USA	75.00%	75.00%
National Health Finance DM, LLC	USA	100.00%	100.00%

Note 35. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation / (Date of acquisition)	Ownership interest	
		31 December 2019	31 December 2018
		%	%
National Health Finance of Florida, LLC	USA	100.00%	100.00%
National Health Finance of Florida 2, LLC	USA	60.80%	60.80%
National Health Finance WA, LLC	USA	75.00%	75.00%
National Medical Finance & Assistance, LLC	USA	100.00%	100.00%
Nevada Health Finance, LLC	USA	60.00%	60.00%
Nevada Medical Concierge Services, LLC	USA / (27 February 2019)	75.00%	-
Nevada Orthopedic and Spinal Financing, LLC	USA	75.00%	75.00%
New Mexico Health Finance, LLC	USA	68.00%	68.00%
New Mexico Medical Financing, LLC	USA	49.00%	49.00%
North Carolina Health Finance, LLC	USA	73.00%	70.50%
North Texas Medical Finance, LLC	USA	70.00%	69.00%
Northern Florida Medical Finance, LLC	USA	89.00%	88.00%
NW Health Network, LLC	USA	66.00%	66.00%
Odessa Health Finance, LLC	USA	75.00%	72.50%
Oklahoma Health Finance, LLC	USA	83.00%	83.00%
Oklahoma Injury Network, LLC	USA	71.50%	70.00%
Oklahoma Injury Solutions, LLC	USA	75.00%	75.00%
Old Pueblo Medical Financing of Delaware, LLC	USA	100.00%	100.00%
Old Pueblo Medical Financing, LLC	USA	50.00%	50.00%
ONYX Medical Funding Group, LLC	USA	70.00%	70.00%
Pennsylvania Healthcare Finance, LLC	USA / (25 April 2019)	70.00%	-
Physicians Accident Injury Network, LLC	USA	75.00%	72.50%
Pikes Peak Medical Funding, LLC	USA	75.00%	72.50%
Premier Medical Review, LLC	USA	75.00%	75.00%
Red River Medical Funding, LLC	USA	75.00%	75.00%
Rocky Mountain Medical Finance, LLC	USA	73.00%	71.00%
San Fernando Injury Network, LLC	USA / (26 March 2019)	75.00%	-
Silver State Surgical Solutions, LLC	USA	80.00%	80.00%
Smash Medical Funding, LLC	USA / (11 January 2019)	75.00%	-
SMD Medical Finance, LLC	USA	68.00%	68.00%
Southern California Injury Treatment Network, LLC	USA	99.00%	99.00%
Southern Idaho Medical Funding, LLC	USA	75.00%	75.00%
Southwest Injury Solutions, LLC	USA	73.00%	73.00%
Southwest Medical Financing, LLC	USA	75.00%	75.00%
Surgical Capital Partners, LLC	USA	100.00%	100.00%
Top Tier Injury Solutions, LLC	USA / (01 March 2019)	75.00%	-
Tri Cities Injury Solutions, LLC	USA	75.00%	72.50%
Tristate Medical Finance, LLC	USA	75.00%	75.00%
Waterleaf Medical Finance, LLC	USA	73.00%	71.00%
West Coast Injury Solutions, LLC	USA	75.00%	75.00%

* Application for voluntary liquidation on 28 November 2019

** Deregistered on 1 May 2019

*** Deregistered on 4 June 2019

Note 36. Reconciliation of loss after income tax to net cash (used in) operating activities

	Consolidated 12 months 31 December 2019 US\$'000	6 months 31 December 2018 US\$'000
Loss after income tax benefit for the period	(3,100)	(11,548)
Adjustments for:		
Depreciation and amortisation	591	82
Share-based payments	-	27
Employee bonus provision	305	-
Employee leave provision	29	21
Interest income	(30)	(94)
Commissions payable	(217)	71
Interest expense	8,602	2,727
Write off of acquisition costs of litigation assets	-	925
Impairment of assets	458	2,765
Warrant costs	-	3,156
Net foreign exchange differences	477	636
Fair value gain on financial liabilities	(20,828)	-
Change in operating assets and liabilities:		
Decrease/(increase) in other loans and receivables	1,777	(10,396)
Increase in deferred tax assets	(3,551)	(2,159)
Decrease/(increase) in prepayments	(98)	15
Increase/(decrease) in trade and other payables	(2,326)	8,457
Increase in tax provision	804	-
Increase/(decrease) in provisions or employee benefits	(2)	118
Increase in borrowings	3,120	1,399
Net cash (used in) operating activities	<u>(13,989)</u>	<u>(3,798)</u>

Note 37. Non-cash investing and financing activities

	Consolidated 12 months 31 December 2019 US\$'000	6 months 31 December 2018 US\$'000
Additions to the right-of-use assets	<u>1,663</u>	<u>-</u>

Note 38. Changes in liabilities arising from financing activities

Consolidated	Vendor loan US\$'000	NHF Founder Promis - sory Notes US\$'000	Converti - ble bonds payable US\$'000	Lucerne Group combined loan US\$'000	Lucerne Group – working capital facility US\$'000	Lucerne Group facility US\$'000	Other NHF subordina- ted debt US\$'000	Total US\$'000
Balance at 1 July 2018	1,048	-	3,696	9,868	2,217	-	-	16,829
Conversion to shares	-	-	-	(1,331)	(361)	-	-	(1,692)
Loans received	-	-	-	438	-	-	-	438
Loans repaid	(181)	-	-	-	(1,807)	-	-	(1,988)
Changes through business combinations (note 34)	-	9,000	-	-	-	5,100	1,000	15,100
Capitalised interest	-	-	-	-	-	138	-	138
Exchange differences	(43)	-	(167)	(427)	(49)	-	-	(686)
Balance at 31 December 2018	824	9,000	3,529	8,548	-	5,238	1,000	28,139
Loans received	-	-	-	2,785	-	5,660	-	8,445
Loans repaid	(525)	-	-	-	-	-	-	(525)
Fair value gain	-	(9,000)	-	-	-	-	-	(9,000)
Capitalised interest	23	-	-	367	-	732	-	1,122
Exchange differences	(7)	-	(29)	(58)	-	-	-	(94)
Other adjustment	-	-	-	-	-	492	-	492
Balance at 31 December 2019	<u>315</u>	<u>-</u>	<u>3,500</u>	<u>11,642</u>	<u>-</u>	<u>12,122</u>	<u>1,000</u>	<u>28,579</u>

Note 38. Changes in liabilities arising from financing activities (continued)

Consolidated	Asset - secure Pty Limited loan US\$'000	Atalaya Capital Man- agement US\$'000	Syndicated acquisition facility US\$'000	Vendor loan - NHF Founders US\$'000	Other NHF subordin- ated debt US\$'000	Other NHF subordin- ated-debt US\$'000	Insurance financing and credit cards US\$'000	Total US\$'000
Balance at 1 July 2018	18,844	-	-	-	-	-	-	18,844
Loans received	5,919	4,912	30,546	12,434	-	-	518	54,329
Loans repaid	(3,840)	(4,697)	-	-	-	-	(390)	(8,927)
Changes through business combinations (note 34)	-	39,687	-	-	-	-	335	40,022
Capitalised interest	-	-	-	416	-	-	-	416
Exchange differences	(895)	-	(902)	(304)	-	-	-	(2,101)
Balance at 31 December 2018	20,028	39,902	29,644	12,546	-	-	463	102,583
Loans received	9,903	17,625	-	-	1,150	4,750	389	33,817
Loans repaid	(8,326)	(15,924)	-	-	-	-	(647)	(24,897)
Fair value gain	-	-	-	(11,828)	-	-	-	(11,828)
Capitalised interest	-	-	-	-	30	-	-	30
Exchange differences	(158)	-	(248)	(596)	-	-	(14)	(1,016)
Balance at 31 December 2019	21,447	41,603	29,396	122	1,180	4,750	191	98,689

Consolidated	Paradise Diversified Holdings Limited Partnership US\$'000	Pitt Capital Partners Limited US\$'000	Washington H. Soul Pattinson & Company Limited US\$'000	Lease liabilities US\$'000	Total US\$'000
Balance at 1 July 2018	-	-	-	-	-
Balance at 31 December 2018	-	-	-	-	-
Leases recognised on the adoption of AASB 16	-	-	-	27	27
Additions	-	-	-	1,663	1,663
Loans received	4,124	864	2,275	-	7,263
Loans repaid	(11)	-	-	-	(11)
Repayment of leases	-	-	-	(159)	(159)
Capitalised interest	50	388	-	-	438
Balance at 31 December 2019	4,163	1,252	2,275	1,531	9,221

Note 39. 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 2019

Grant date	Expiry date	Exercise price*	Balance at the start of the period	Granted	Exercised	Lapsed	Balance at the end of the period
22/01/2016	22/01/2019	US\$0.176	1,500,000	-	-	(1,500,000)	-
			1,500,000	-	-	(1,500,000)	-
Weighted average exercise price			US\$0.176	US\$0.000	US\$0.000	US\$0.000	US\$0.000

* Exercise price - A\$0.25

31 December 2018

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

* Exercise price - A\$0.25

The weighted average share price during the financial period was US\$0.050 (31 December 2018: US\$0.052).

The weighted average remaining contractual life of options outstanding at 31 December 2019 was nil years (31 December 2018: 0.06 years).

Performance rights

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

There were no performance rights outstanding at 31 December 2019.

Note 39. Share-based payments (continued)

**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)	-	-

The weighted average remaining contractual life of performance rights outstanding at 31 December 2018 was nil months.

Warrants

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

**31 December
2019**

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

**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 31 December 2019 was 2.75 years (31 December 2018: 3.75 years).

Shares issued

There were no shares issued as share-based payments during the year ended 31 December 2019.

During the period ended 31 December 2018, 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 23).

During the period ended 31 December 2018, 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 23).

Note 40. Events after the reporting period

1. Capital raise

On 24 December 2019, the Company announced that it had completed a US\$3.4 million (A\$5.0 million) equity placement ('Placement') with existing and new sophisticated investors at US\$0.045 (A\$0.064) per share. The funds raised and shares issued have been included in these financial results.

Note 40. Events after the reporting period (continued)

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 US\$0.045 (A\$0.064) per share ('Entitlement Offer'), representing a 16% discount to the 30-day VWAP.

The Entitlement Offer was partially underwritten to US\$14.0 million (A\$20.0 million) by Lucerne Australia Pty Ltd.

On 19 February 2020, the Company announced it had raised a total of US\$14.8 million (A\$21.2 million) under the Entitlement Offer.

Of these funds raised under the Entitlement Offer, US\$9.0 million (A\$12.9 million) was used to repay existing debt. The balance of US\$5.8 million (A\$8.3 million) was received in cash.

The issue of shares occurred on 21 February 2020. The total 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 2019)	78,125,000
Shares issued under the Entitlement Offer (completed 21 February 2020)	330,923,639
Shares on issue as at 21 February 2020	<u>892,684,106</u>

The proceeds from the Placement and the Entitlement Offer were used by the Company for the following purposes:

- reduce existing debt totalling US\$9.0 million (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.

2. Extraordinary General Meeting ('EGM')

On 10 March 2020, the Company held an EGM that proposed five resolutions to shareholders for approval. All of the resolutions were approved. The Company will now be able to finalise the implementation of a number of the reorganisation initiatives following on from the Placement and the Entitlement Offer. The overall outcome from all of these initiatives is a significant reduction in total Group net debt with a corresponding material improvement in the balance sheet and an immediate and significant reduction in interest costs.

The five resolutions approved at the EGM were 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 a 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.

- (a) Bondholder conversion: The Company has shareholder approval to permit the conversion of US\$3.5 million (A\$5.0 million) (plus outstanding interest) of convertible bonds into shares at an issue price of 4.5 US cents (US\$0.045) (6.4 Australian cents (A\$0.064)) per share. The projected number of shares to be issued if all Bondholders elect to convert is 81,693,872 shares.

This conversion was approved under Resolutions 1 and 2 of the EGM.

- (b) NHF Vendor Debt Conversion: In connection with the Company's acquisition of 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 an executive director of the Company.

As part of the capital reorganisation arrangements announced by the Company, the NHF Vendors have agreed to accept a combination of unlisted options as full payment for its promissory notes (under which US\$9.0 million (A\$12.9 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 US\$12.0 million (A\$17.2 million) is owed by the Company to the NHF Vendors, split evenly between the two NHF Vendors).

Note 40. Events after the reporting period (continued)

Subsequent to shareholder approval of Resolutions 3 and 4 of the EGM, the following options were issued on 13 March 2020:

Number of options	Exercise price	Expiry date
24,000,000	US\$0.175 (A\$0.25)	28 September 2021
22,500,000	US\$0.28 (A\$0.40)	28 September 2022
25,000,000	US\$0.42 (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.

- (c) Issue of new Capitalising Converting Note: A group of subordinated debtholders have agreed to convert their subordinated debt into a new convertible note ('Capitalising Converting Note') which has the following material terms:
- (i) Face value of US\$19.9 million (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 US\$0.07 (A\$0.10) per share; and
 - (v) Projected maximum number of shares the Capitalising Converting Note is convertible to is 335,048,088 shares (based on fully capitalised sum as of 31 December 2022).

The issue of shares under the Capitalising Converting Note was approved by Shareholders under Resolution 5 of the EGM.

3. Application for waiver of ASX 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.

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 sought a waiver from ASX Listing Rule 6.23.3. The ASX did not grant the waiver requested due to the level of warrants on issue when compared to the total number of shares on issue. The Company has informed the Syndicated Acquisition Lenders of the decision of the ASX and continues to work with these lenders to find a workable solution to finalise this aspect of its capital reorganisation.

Note 40. Events after the reporting period (continued)

4. COVID-19 (Coronavirus)

On 11 March 2020, Coronavirus was declared a pandemic by the World Health Organisation, with resulting significant impacts on local and world economies. At this point in time given the rapidly evolving situation, the Group is unable to quantify the impact the Coronavirus pandemic will have on the future financial performance of its businesses. However, both cash collections and originations are likely to slow down as both the USA and Australian governments implement quarantine initiatives and economic activity in general slows down.

Whilst the Group continues to actively monitor the situation and its impacts, it is likely that cash collection covenants in the Group's financial facilities will not be met over the next few months. In addition, other financial covenants contained within the various loan arrangements the Group is party to may be breached. The Group is working with each of its financiers in advance of these potential challenges in order to obtain standstill and/or forbearance agreements during this time. These discussions are on-going and the Group will update the market as and when appropriate in accordance with its continuous disclosure obligations.

5. 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 was 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.

This dispute was settled between the parties on 27 March 2020 with no admission as to liability. The Group has agreed to issue the seller 14,000,000 shares at an agreed value of A\$0.064 per share (A\$896,000) and release claims to certain amounts currently in a solicitor's trust account. The Company will receive approximately A\$750,000 from funds currently held in trust.

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.

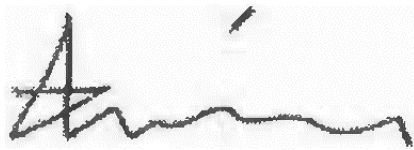
In the directors' opinion:

- 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 2019 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

A handwritten signature in black ink, appearing to read 'Tim Storey', written over a horizontal line.

Tim Storey
Chairman

31 March 2020
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 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 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 2019 and of its financial performance for the 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 Company 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.

Material Uncertainty Relating to Going Concern and Carrying Value of Non-Current Assets

We draw attention to the following matters.

Material Uncertainty regarding Going Concern

As stated in Note 2 to the financial statements, the consolidated financial statements have been prepared on a going concern basis. At 31 December 2019 the Group had cash and cash equivalents of \$5,777,000 (31 December 2018 \$3,696,000), a working capital deficiency of \$39,706,000 (31 December 2018 working capital of \$26,000) and incurred a loss after income tax of \$3,100,000 (31 December 2018 \$11,548,000).

We also draw your attention to Note 22(xv) and the Syndicated acquisition facility of \$29,396,000. This loan is classified current due to a breach of a number of covenants. We also draw to your attention to Note 40 and the \$14.8m (A\$21.2M) raised by the company under the entitlement offer.

The ability of the consolidated entity to continue as a going concern is subject to the consolidated entity realising cashflows from the expected legal case completions, renegotiating its financing arrangements and collecting its outstanding disbursement receivables books in accordance with its budgeted cashflows. In the event that the Board does not successfully collect its outstanding disbursement books, renegotiates its financing arrangements and/or realising cashflows from the expected legal case completions, the consolidated entity may not be able to meet its liabilities as and when they fall due.

Material Uncertainty regarding the recoverability of deferred tax assets and goodwill

The recoverability of the deferred tax assets of \$10,340,000 and the carrying value of goodwill of \$40,504,000 for the consolidated entity, is dependent upon the entity earning sufficient tax profits in the future years to utilise the deferred tax assets and producing cashflows in accordance with budgets (refer note 19). In the event that the consolidated entity does not generate enough taxable profits, the tax assets will need to be expensed and the carrying value of Goodwill impaired. Furthermore, we also note the budgets and financial models used to underpin the recoverability of the carrying value of goodwill and the deferred tax asset were prepared by management prior to the recent market uncertainty arising from the spread of the COVID-19 virus and its effects on the business

environments in Australia and the United States. Management are reviewing what impact, if any, this will have on their business, and the stated balances.

Our opinion is not modified in respect of these matters.

Key Audit Matters

In addition to the matter described in the Material Uncertainty Related to Going Concern and Carrying Value of Non-Current Assets section, we have determined the matter described below to be Key Audit Matter to be communicated in our report.

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
<p>Classification and measurement of financial assets</p> <p>As at 31 December 2019, Financial Assets totalled \$95,314,000 (refer to Note 13 and 14).</p> <p>Included in the financial assets balance is \$73,131,000 in relation to the Group's Medical Lien funding Business referred to as National Health Finance ("NHF"). In the prior financial period, the Company acquired NHF and NHF was consolidated for three months from acquisition (effective 1 October 2018) to the 31 December 2018.</p> <p>At the time, due to the similarities of the Group's other disbursement funding business in Australia, it was concluded that utilising the Fair Value through Profit and Loss (FVTPL) method, was the most appropriate application of ("AASB 9") "Financial Instruments" standard for the financial assets held by the NHF medical lien funding business.</p> <p>In the current year, being the first full year since acquisition, the appropriateness of the original application of accounting under AASB 9 was reviewed by Directors, particularly considering the emerging interpretations of this new accounting standard. External independent advice in relation to the accounting application was sought, and it was concluded that due to the differences in the operations of the NHF medical lien funding business compared to the Australian disbursement business, that amortised cost is considered the most appropriate accounting treatment for the NHF business. The directors then sought a separate external independent expert to value the financial assets at amortised cost for both the year ended 31 December 2019 and the comparative period 31 December 2018 (which has been restated).</p> <p>This is considered to be a key audit matter due to significance of the impact and the pervasiveness of the accounting policy applied.</p> <p>The application and appropriateness of AASB 9 in relation to the Australian disbursement business remains unchanged.</p>	<p>Inter alia, our audit procedures included the following:</p> <ol style="list-style-type: none"> Obtained the independent experts accounting advice, critically assessed this advice, challenged management on its applicability to the NHF business and concluded on its application; Audited the valuation model provided by the valuation expert, assessed the qualifications of the expert to prepare such models, assessing the design of the model and audited its various inputs. We have also critically assessed the actuarial assumptions used in the valuation model which were adopted by the same expert; We completed substantive testing on a sample basis of the transactions within the adopted valuation model; Obtained confirmations, tested on a sample basis, of debtors within the financial model; and Assessed whether the disclosures included in the financial report were in accordance with the requirements of AASB 9 and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

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 2019, 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 opinion 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 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 9 to 17 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of LawFinance Limited for the year ended 31 December 2019 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
31 March 2020

The shareholder information set out below was applicable as at 25 March 2020.

Distribution of equity securities

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	36	-
1,001 to 5,000	17	-
5,001 to 10,000	60	-
10,001 to 100,000	298	-
100,001 and over	294	2
	<u>705</u>	<u>2</u>
Holding less than a marketable parcel	<u>149</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
Citicorp Nominees Pty Limited	145,513,561	16.30
Mr Mark Siegel	107,548,702	12.05
Mr David Wattel	107,548,701	12.05
National Nominees Limited	80,000,000	8.96
Washington H Soul Pattinson & Company Limited	43,750,000	4.90
Australian Philanthropic Services Foundation Pty Ltd (APS Foundation A/c)	20,000,001	2.24
Barbright Australia Pty Ltd (Interquartz Super Fund A/c)	17,672,933	1.98
Mr John Herbert Bannister	16,263,146	1.82
Factotum Group Pty Ltd (Factotum Holdings A/c)	13,987,542	1.57
J F Byrnes Super Pty Ltd (Argoon Avenue S/F A/c)	8,268,182	0.93
BNP Paribas Nominees Pty Ltd (IB AU Noms RetailClient DRP)	7,947,192	0.89
Prolex Holdings Limited (The PHL A/c)	7,263,315	0.81
Mr Jason Maxwell Yu	6,500,000	0.73
Factotum Group Pty Ltd (Factotum Holdings A/c)	6,012,458	0.67
HSBC Custody Nominees (Australia) Limited	5,955,429	0.67
Hammond Royce Corporation Pty Ltd (Len David Super Fund A/c)	5,850,346	0.66
Mr Marinus Adrian Strybosch & Mrs Penelope K Strybosch (Strybosch Super Fund A/c)	5,340,693	0.60
Ratio Nominees Pty Ltd	5,230,006	0.59
Pick Management Pty Ltd (Pick Family Super Fund A/c)	5,220,009	0.58
Mr Ping Kin Yu & Mrs Wai Ying Elsa Yu (PK and Elsa Super Fund A/c)	5,200,000	0.58
	<u>621,072,216</u>	<u>69.58</u>

LawFinance Limited
Shareholder information
31 December 2019

Unquoted equity securities (options)

	Number on issue	Number of holders
Options – exercisable at \$0.25 cent before 28 September 2021	24,000,000	2
Options – exercisable at \$0.40 cent before 28 September 2022	22,500,000	2
Options – exercisable at \$0.60 cent before 28 September 2023	25,000,000	2

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares % of total shares issued
Number held	
Citicorp Nominees Pty Limited	145,513,561 16.30
Mr Mark Siegel	107,548,702 12.05
Mr David Wattel	107,548,701 12.05
National Nominees Limited	80,000,000 8.96

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 director and KMP shares related to the purchase of NHF	215,097,403

 LAWFINANCE