

1. Company details

Name of entity:	LawFinance Limited
ABN:	72 088 749 008
Reporting period:	For the half-year ended 30 June 2020
Previous period:	For the half-year ended 30 June 2019

2. Results for announcement to the market

				US\$'000
Revenues from ordinary activities	down	140.9%	to	(4,816)
Total comprehensive loss for the Group	up	8.0%	to	(12,786)
Loss from ordinary activities after tax attributable to the owners of LawFinance Limited	up	28.1%	to	(15,171)
Loss for the half-year attributable to the owners of LawFinance Limited	up	28.1%	to	(15,171)

Dividends

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

Comments

The total comprehensive loss for the Group amounted to US\$12,786,000 (30 June 2019: US\$11,842,000).

For further commentary, refer to 'Review of operations' within the Directors' report of the Interim Financial Report.

3. Net tangible assets

	30 June 2020 Cents	31 Dec 2019 (restated) Cents
Net tangible assets per ordinary security	(2.72)	(9.07)

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

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

The Group has a joint operation with Longford Capital Management LP ('Longford Capital') where the Group co-invests with Longford Capital in litigation funding. The joint operation is funding one case in the United States on a 50:50 basis. The Group is entitled to its proportionate share of the income received from Litigation Contracts in progress and bears a proportionate share of the joint operations' costs of investment in cases. The total investment by the Group in the joint operation at 30 June 2020 was US\$1,133,000 (31 December 2019: US\$1,157,000). Longford Capital and the Group are also co-funding six cases in Australia on a 50:50 basis with four of these cases now completed. The total investment by the Group in all co-funded cases in Australia as at 30 June 2020 was US\$1,691,000 (31 December 2019: US\$2,104,000).

9. Foreign entities

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

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

10. Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Financial Report.

11. Attachments

Details of attachments (if any):

The Interim Financial Report of LawFinance Limited for the half-year ended 30 June 2020 is attached.

12. Signed

As authorised by the Board of Directors

Signed  _____

Date: 31 August 2020

Tim Storey
Chairman
Sydney

A white silhouette of a city skyline with various skyscrapers of different heights and architectural styles, set against a solid blue background.

2020

Half Year Report

for the six months ended 30 June 2020

ABN 72 088 749 008

LawFinance Limited
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30 June 2020

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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

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 half-year ended 30 June 2020.

Directors

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

Tim Storey
Diane Jones
Anthony Murphy
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 half-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 22 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 NHF and JustKapital Finance 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.

Review of operations

At the commencement of this financial year, the Group was well positioned to execute its strategic plan. The foundation of the plan was the completion of its financial restructuring through various capital raising initiatives and through the conversion of debt to equity. The restructuring had been announced on 24 December 2019. The financial restructuring initiatives were approved by shareholders at an extraordinary general meeting held on 10 March 2020. The initiatives resulted in the issuance of a total of 404,869,578 new shares and the reduction of \$50,481,000 in debt in the period. These initiatives were undertaken to reduce the overall debt levels and to enable the Group to take advantage of growth opportunities, particularly for the NHF business.

On 11 March 2020, Coronavirus was declared a pandemic by the World Health Organisation ('COVID-19 pandemic'). At the onset of the pandemic the directors took immediate and decisive action. The directors agreed to a full salary deferral for a minimum of three months, key management personnel agreed to salary deferments of between 25% and 50%, a third of the workforce was dismissed, deferred payment arrangements were structured with creditors and standstill arrangements were negotiated with the Group's financiers. This decisive action has ensured that the Group could continue to operate during the pandemic, albeit on a smaller scale.

The effects of the pandemic, and in particular the various "Stay at Home Orders" or "Shelter in Place" orders that were initiated by various state governments in the US, resulted in a significant down-turn in sales and cash collections in the NHF business during the months of March to June. Not only were there fewer motor vehicle accidents in the period, most courts were either closed completely for varying periods or significantly delayed as new virtual processes were initiated. In addition, insurers slowed down discussions with law firms and law firms themselves operated with fewer staff. In Australia, similar restrictions declared by the Australian government impacted originations, however, cash collections remained on track.

Despite the efforts taken to reduce costs, the trading conditions severely impacted the Group's performance and a significant loss was incurred in the period.

The downturn in cash collections meant that additional covenant breaches of the Group's facilities were incurred. However, as at the date of this report none of the Group's financiers have demanded repayment of their loans and all have indicated a willingness to continue to support the Group.

Most importantly, the Group has been able to weather the economic turmoil that has resulted from the pandemic, notwithstanding the contraction in the total accounts receivables. It is in a position to accelerate its operations and take advantage of the growth opportunities that are starting to occur as the US economy restarts. NHF is well placed to service this increased demand for its products in a post COVID-19 pandemic economy.

The total comprehensive loss for the Group amounted to US\$12,786,000 (30 June 2019: US\$11,842,000). The loss attributable to the owners of the Group after providing for income tax and non-controlling interest amounted to US\$15,171,000 (30 June 2019: US\$11,845,000). The loss in the period can be broken down into the following key items:

- (a) Operating losses incurred as a result of the poor economic conditions created by the economic downturn resulting from COVID-19 pandemic.
- (b) Since March 2020 the Group has accepted lower collections than it previously accepted to ensure that it had sufficient cash balances to trade through the COVID-19 pandemic period. This has impacted the calculation of the financial assets at amortised cost which were required to be impaired to account for these lower collections. This resulted in an impairment of US\$11,737,000.
- (c) The short-term originations outlook has been recast to account for the poor current trading conditions, which are expected to continue through to the end of this calendar year. This has had an impact on the carrying value of goodwill for NHF which was impaired by US\$7,258,000.
- (d) The revised short-term outlook recast has also affected the recoverability of the NHF deferred tax asset, which was impaired by US\$7,045,000.
- (e) The above losses were offset by a write-off of the vendor loans totalling US\$22,612,000.

The statement of financial position ('balance sheet') reflects a carrying value of the receivables from the two main businesses, being NHF and JustKapital Finance of US\$79,911,000 (2019: US\$95,314,000). There is also an estimated US\$2,113,000 (2019: US\$2,738,000) classified as "unrecognised day 1 margin" and US\$1,436,000 (2019: US\$2,227,000) classified as "fair value" under AASB 9, both of which represent future profit to be recognised in the statement of profit or loss from the JustKapital Finance business. In addition, there is US\$9,190,000 (2019: US\$11,870,000) of future profit to be recognised from the NHF business under the amortised cost methodology adopted under AASB 9 for this 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

The Group faces a very tough trading environment as a result of the effects of the COVID-19 pandemic. The impact of the pandemic on the Group has meant that it has failed to meet its cash collection covenants and has been unable to pay some interest due to its financiers. The Group continues to have on-going discussions with its financiers concerning the trading conditions.

As at the date of this report none of the Group's financiers have demanded repayment of their loans despite existing and expected future covenant breaches. All of the Group's financiers are continuing to support the Group. Management remains vigilant and closely monitors this pandemic and its impact on the Group as well as the position of its financiers.

There were no other significant changes in the state of affairs of the Group during the financial half-year.

Matters subsequent to the end of the financial half-year

While there continues to be uncertainty relating to the future impacts of the COVID-19 pandemic, the Group faces a very challenging environment. However, there has not arisen in the interval between period end and the date of this report any item, transaction or event of a material and unusual nature that has affected the operations of the Group.

As at the date of this report none of the Group's financiers have demanded repayment of their loans despite existing and continued covenant breaches. All of the Group's financiers continue to support the Group. Management remains vigilant and closely monitors this pandemic and its impact on the Group as well as the position of its financiers.

No other matter or circumstance has arisen since 30 June 2020 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.

Rounding of amounts

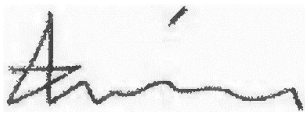
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain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

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Tim Storey
Chairman

31 August 2020
Sydney

31 August 2020

Board of Directors
LawFinance Limited
Suite 1B, Level 16
56 Pitt Street
Sydney NSW 2000

Dear Sirs

RE: LAWFINANCE LIMITED

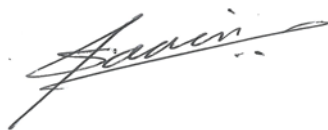
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of LawFinance Limited.

As Audit Director for the review of the financial statements of LawFinance Limited for the half year ended 30 June 2020, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

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



Samir Tirodkar
Director

LawFinance Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2020

		Consolidated	
		1 Jan 2020 to	1 Jan 2019 to
	Note	30 Jun 2020	30 Jun 2019
		US\$'000	US\$'000
Revenue			
Net loss from disbursement funding/medical lien funding	5	(6,380)	(2,156)
Other revenue	6	1,564	157
Total revenue		<u>(4,816)</u>	<u>(1,999)</u>
Non-supplier related cost of sales		<u>(19)</u>	<u>(756)</u>
Gross margin/(loss)		<u>(4,835)</u>	<u>(2,755)</u>
Other income	7	474	581
Expenses			
Impairment gain on financial liabilities	8	19,602	-
Employee benefits expense	8	(2,598)	(2,727)
Depreciation and amortisation expense	8	(1,012)	(249)
Impairment of assets	8	(7,258)	(67)
Administration and other expenses	8	(1,414)	(1,474)
Finance costs	8	<u>(8,606)</u>	<u>(9,101)</u>
(Loss) before income tax (expense)/benefit		(5,647)	(15,792)
Income tax (expense)/benefit		<u>(8,617)</u>	<u>3,164</u>
(Loss) after income tax (expense)/benefit for the half-year		(14,264)	(12,628)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>1,478</u>	<u>786</u>
Other comprehensive income for the half-year, net of tax		<u>1,478</u>	<u>786</u>
Total comprehensive loss for the half-year		<u><u>(12,786)</u></u>	<u><u>(11,842)</u></u>
(Loss) for the half-year is attributable to:			
Non-controlling interest		907	(783)
Owners of LawFinance Limited		<u>(15,171)</u>	<u>(11,845)</u>
		<u><u>(14,264)</u></u>	<u><u>(12,628)</u></u>
Total comprehensive loss for the half-year is attributable to:			
Non-controlling interest		907	(783)
Owners of LawFinance Limited		<u>(13,693)</u>	<u>(11,059)</u>
		<u><u>(12,786)</u></u>	<u><u>(11,842)</u></u>
		Cents	Cents
Basic loss per share	9	(1.85)	(2.45)
Diluted loss per share	9	(1.85)	(2.45)

Refer to note 3 for detailed information on the 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 30 June 2020

		Consolidated	
	Note	30 Jun 2020	31 Dec 2019
		US\$'000	US\$'000
			Restated
Assets			
Current assets			
Cash and cash equivalents	10	2,714	5,777
Financial assets at fair value through profit or loss	11	10,637	12,260
Financial assets at amortised cost	12	16,202	17,236
Other loans and receivables	13	1,343	1,654
Prepayments		146	165
Total current assets		31,042	37,092
Non-current assets			
Financial assets at fair value through profit or loss	11	8,099	9,923
Financial assets at amortised cost	12	44,973	55,895
Other loans and receivables	13	5	5
Investment held in joint operations	14	1,133	1,157
Property, plant and equipment	15	122	168
Right-of-use assets		1,244	1,443
Goodwill	16	33,161	40,504
Other intangibles	17	7,834	8,040
Deferred tax	18	4,167	12,579
Total non-current assets		100,738	129,714
Total assets		131,780	166,806
Liabilities			
Current liabilities			
Trade and other payables	19	7,396	9,322
Borrowings	20	85,451	117,375
Lease liabilities		400	369
Employee benefits		316	213
Total current liabilities		93,563	127,279
Non-current liabilities			
Borrowings	20	21,516	40,073
Lease liabilities		974	1,162
Provision for withholding tax		1,107	804
Total non-current liabilities		23,597	42,039
Total liabilities		117,160	169,318
Net assets/(liabilities)		14,620	(2,512)
Equity			
Issued capital	21	57,641	40,924
Capitalising converting notes	22	13,503	-
Reserves	23	8,378	6,778
Accumulated losses		(64,257)	(49,086)
Equity/(deficiency) attributable to the owners of LawFinance Limited		15,265	(1,384)
Non-controlling interest		(645)	(1,128)
Total equity/(deficiency)		14,620	(2,512)

Refer to note 3 for detailed information on the 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 half-year ended 30 June 2020

Consolidated - restated	Issued capital US\$'000	Capitalising converting notes US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Non- controlling interest US\$'000	Total equity US\$'000
Balance at 1 January 2019	37,649	-	5,998	(26,310)	516	17,853
Adjustment for change in accounting policy	-	-	-	(14)	-	(14)
Balance at 1 January 2019 - restated	37,649	-	5,998	(26,324)	516	17,839
(Loss) after income tax benefit for the half-year	-	-	-	(11,845)	(783)	(12,628)
Other comprehensive income for the half-year, net of tax	-	-	786	-	-	786
Total comprehensive income/(loss) for the half-year	-	-	786	(11,845)	(783)	(11,842)
<i>Transactions with owners in their capacity as owners:</i>						
Distribution to non-controlling interest	-	-	-	-	(1,126)	(1,126)
Balance at 30 June 2019	<u>37,649</u>	<u>-</u>	<u>6,784</u>	<u>(38,169)</u>	<u>(1,393)</u>	<u>4,871</u>

Refer to note 3 for detailed information on the restatement of comparatives.

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

LawFinance Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2020

Consolidated	Issued capital US\$'000	Capitalising converting notes US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Non-controlling interest US\$'000	Total equity US\$'000
Balance at 1 January 2020	40,924	-	6,873	(28,930)	(1,128)	17,739
Adjustment for restatement (note 3)	-	-	(95)	(20,156)	-	(20,251)
Balance at 1 January 2020 - restated	40,924	-	6,778	(49,086)	(1,128)	(2,512)
Profit/(loss) after income tax expense for the half-year	-	-	-	(15,171)	907	(14,264)
Other comprehensive income for the half-year, net of tax	-	-	1,478	-	-	1,478
Total comprehensive income/(loss) for the half-year	-	-	1,478	(15,171)	907	(12,786)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs (note 21)	16,717	-	-	-	-	16,717
Share-based payments	-	-	122	-	-	122
Distribution to non-controlling interest	-	-	-	-	(424)	(424)
Capitalising converting notes (note 22)	-	13,503	-	-	-	13,503
Balance at 30 June 2020	<u>57,641</u>	<u>13,503</u>	<u>8,378</u>	<u>(64,257)</u>	<u>(645)</u>	<u>14,620</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 half-year ended 30 June 2020

	Consolidated	
	1 Jan 2020 to 30 Jun 2020	1 Jan 2019 to 30 Jun 2019
	US\$'000	US\$'000
Cash flows from operating activities		
Cash collections from customers (inclusive of GST)	14,660	14,853
Payments to suppliers and employees	(4,050)	(5,291)
Payments for disbursement reports and medical liens	(8,525)	(15,852)
Drawdowns from working capital facilities - disbursement funding division	1,279	4,353
Drawdowns from working capital facilities - medical lien funding division	5,141	12,875
Repayment of working capital facilities - disbursement funding division	(3,908)	(3,446)
Repayment of working capital facilities - medical lien funding division	(9,526)	(6,370)
Interest and fees related to working capital facilities	(3,613)	(4,301)
Interest received	1	2
Interest paid	(10)	(14)
Net cash (outflow) from operating activities	(8,551)	(3,191)
Cash flows from investing activities		
Payments for property, plant and equipment	(3)	(145)
Payments for other intangibles	-	(493)
Net proceeds from realisation of investments (case settlements)	494	-
Receipts/payments for litigation case funding (net of co-funders contributions)	430	(973)
Net cash inflow/(outflow) investing activities	921	(1,611)
Cash flows from financing activities		
Proceeds from issue of shares	5,345	-
Share issue transaction costs	(357)	-
Proceeds from borrowings - corporate	2,070	5,832
Repayment of borrowings - corporate	(1,505)	-
Interest and fees related to loans and borrowings	(728)	(1,940)
Repayment of lease liabilities	(124)	(28)
Net cash inflow from financing activities	4,701	3,864
Net decrease in cash and cash equivalents	(2,929)	(938)
Cash and cash equivalents at the beginning of the financial half-year	5,777	3,696
Effects of exchange rate changes on cash and cash equivalents	(134)	(1)
Cash and cash equivalents at the end of the financial half-year	<u>2,714</u>	<u>2,757</u>

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.

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 August 2020.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

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.

Going concern

As at 30 June 2020 the Group had net current liabilities of US\$62,521,000 (31 December 2019: US\$90,187,000). 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 directors note that two large facilities have been classified as current as a result of covenant breaches and are included in this net current liability amount, however, repayment of these facilities have not been demanded by the financiers (see note 20). 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; expected case completions from the litigation funding portfolio; and its ongoing discussions with its financiers, as part of the Group's financial planning processes, has formed part of this assessment.

Note 2. Significant accounting policies (continued)

The directors also note that the Group's facility providers have historically worked with the Group to provide the Group with sufficient time to repay any facilities which may have fallen due and /or work with the Group in relation to covenant issues, both before and after the COVID-19 pandemic (which was declared in March 2020).

The Group continues to actively monitor the impact of the COVID-19 pandemic on its businesses and expects that cash collection covenants contained within the Group's financial facilities will not be met over the next few months. The Group is continuing discussions with its financiers during this time. At the date of this report none of the Group's lenders have demanded repayment of their loans and all continue to work with the Group during the COVID-19 pandemic. These discussions are on-going.

At the date of this report, the Directors have no plan to raise equity capital. However, if required, the directors have the capacity to raise additional shareholder equity to ensure the Group continues to trade as a going concern. In the past the Directors have successfully raised equity as and when required by the Group.

In the event that the Group is unable to obtain sufficient funding for its ongoing operating requirements, including any demand to repay financing facilities, there is a uncertainty that the Group may continue as a going concern and realise its assets and discharge its liabilities in the normal course of business at the amounts stated in the financial report. The financial statements do not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that may be necessary should the Group not be able to continue as a going concern.

Note 3. Restatement of comparatives

Prior period restatement

- (i) Medical lien receivables were previously accounted for at fair value through profit or loss. At 31 December 2019, the directors reviewed the interpretations of AASB 9 'Financial Instruments' and changed accounting policy for these medical lien receivables, and accounted for these at amortised cost. Accordingly, the comparatives for period 1 Jan 2019 to 30 Jun 2019 have been restated as follows:

Note 3. Restatement of comparatives (continued)

Statement of profit or loss and other comprehensive income

Extract	Consolidated		
	1 Jan 2019 to 30 Jun 2019 US\$'000 Reported	US\$'000 Adjustments	1 Jan 2019 to 30 Jun 2019 US\$'000 Restated
Revenue			
Net loss from disbursement funding/medical lien funding	3,165	(5,321)	(2,156)
(Loss) before income tax benefit	(10,471)	(5,321)	(15,792)
Income tax benefit	1,973	1,191	3,164
(Loss) after income tax (expense)/benefit for the half-year	(8,498)	(4,130)	(12,628)
Other comprehensive income for the half-year, net of tax	786	-	786
Total comprehensive loss for the half-year	<u>(7,712)</u>	<u>(4,130)</u>	<u>(11,842)</u>
(Loss) for the half-year is attributable to:			
Non-controlling interest	(617)	(166)	(783)
Owners of LawFinance Limited	<u>(7,881)</u>	<u>(3,964)</u>	<u>(11,845)</u>
	<u>(8,498)</u>	<u>(4,130)</u>	<u>(12,628)</u>
Total comprehensive loss for the half-year is attributable to:			
Non-controlling interest	(617)	(166)	(783)
Owners of LawFinance Limited	<u>(7,095)</u>	<u>(3,964)</u>	<u>(11,059)</u>
	<u>(7,712)</u>	<u>(4,130)</u>	<u>(11,842)</u>
	Cents Reported	Cents Adjustments	Cents Restated
Basic loss per share	(1.63)	(0.82)	(2.45)
Diluted loss per share	(1.63)	(0.82)	(2.45)

(ii) The reclassification of the Atalaya Capital Management borrowings from non-current to current for the year ended 31 December 2019. The Company had received a conditional waiver subject to one final condition outstanding that was fulfilled shortly after year end and as such considered a current liability for the year ended 31 December 2019. There is no impact to the comparative statement of profit or loss for the period ended 30 June 2019.

(iii) The write down of the Vendor loan - NHF Founders and NHF Founder Promissory Notes totalling US\$22,612,000 were subject to shareholder approval, which was obtained at the Extraordinary General Meeting held on 10 March 2020. At the time of the signing of the 31 December 2019 financial statements on 31 March 2020, the Board were satisfied that all the conditions concerning the write down were met and therefore that the write downs should be included in 31 December 2019 results as an adjusting event.

The directors have subsequently sought third party advice on this classification and the procedures undertaken to form this view. In particular, the Board considered whether the liabilities could be assessed as being extinguished as at 31 December 2019 and whether the subsequent shareholder vote was confirmation of circumstances that existed at balance date or a new circumstance occurring in the 2020 financial year.

As a result of this advice, the Board concluded that, as shareholder approval was obtained after 31 December 2019, the write down of these liabilities was incorrectly recorded at 31 December 2019. Accordingly, the restatement has de-recognised the write down in the statement of financial position for the year ended 31 December 2019. These loans have now been fully impaired (or written-off) in the current period. There is no impact to the comparative statement of profit or loss for the period ended 30 June 2019.

Note 3. Restatement of comparatives (continued)

The impact on each line item of the statement of financial position as at 31 December 2019 is as follows:

	31 Dec 2019 US\$'000 Reported	US\$'000 Adjustment (ii)	US\$'000 Adjustment (iii)	31 Dec 2019 US\$'000 Restated
Consolidated				
Assets				
Non-current assets:				
Deferred tax	10,340	-	2,239	12,579
Total non-current assets	127,475	-	2,239	129,714
Total assets	164,567	-	2,239	166,806
Liabilities				
Current liabilities:				
Borrowings	66,894	41,603	8,878	117,375
Total current liabilities	76,798	41,603	8,878	127,279
Non-current liabilities:				
Borrowings	68,064	(41,603)	13,612	40,073
Total non-current liabilities	70,030	(41,603)	13,612	42,039
Total liabilities	146,828	-	22,490	169,318
Consolidated Net assets/(liabilities) and Equity				
Net assets/(liabilities)	17,739	-	(20,251)	(2,512)
Equity:				
Reserves	6,873	-	(95)	6,778
Accumulated losses	(28,930)	-	(20,156)	(49,086)
Total equity/(deficiency)	17,739	-	(20,251)	(2,512)

Note 4. Operating segments

Identification of reportable operating segments

The Group is organised into three operating segments: (i) JustKapital Finance, comprising the Australian disbursement funding business and short-term funding, (ii) National Health Finance, comprising the US medical lien funding business and (iii) all other operations including litigation funding and head office costs.

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

Note 4. Operating segments (continued)

Operating segment information

	JustCapital Finance US\$'000	National Health Finance US\$'000	Other US\$'000	Total US\$'000
Consolidated - 1 Jan 2020 to 30 Jun 2020				
Revenue				
Net income/(loss) from disbursement funding/medical lien funding	507	(6,887)	-	(6,380)
Other revenue	26	78	1,460	1,564
	533	(6,809)	1,460	(4,816)
Other income	-	-	474	474
Total revenue	533	(6,809)	1,934	(4,342)
Segment result	76	(7,696)	11,591	3,971
Depreciation and amortisation	(94)	(235)	(683)	(1,012)
Finance costs	(910)	(4,667)	(3,029)	(8,606)
Profit/(loss) before income tax expense	(928)	(12,598)	7,879	(5,647)
Income tax expense				(8,617)
(Loss) after income tax expense				(14,264)
Assets				
Segment assets	23,594	96,130	12,056	131,780
Total assets				131,780
Liabilities				
Segment liabilities	18,813	56,273	42,074	117,160
Total liabilities				117,160

Note 4. Operating segments (continued)

	JustCapital Finance US\$'000	National Health Finance US\$'000	Other US\$'000	Total US\$'000
Consolidated - 1 Jan 2019 to 30 Jun 2019				
Revenue				
Net income/(loss) from disbursement funding/medical lien funding	2,149	(4,305)	-	(2,156)
Other revenue	19	89	49	157
	2,168	(4,216)	49	(1,999)
Other income	-	-	581	581
Total revenue	2,168	(4,216)	630	(1,418)
Segment result	1,523	(7,475)	(490)	(6,442)
Depreciation and amortisation	(23)	(219)	(7)	(249)
Finance costs	(1,015)	(4,099)	(3,987)	(9,101)
Profit/(loss) before income tax benefit	485	(11,793)	(4,484)	(15,792)
Income tax benefit				3,164
(Loss) after income tax benefit				(12,628)
Consolidated - 31 Dec 2019				
Assets				
Segment assets	27,039	123,901	15,866	166,806
Total assets				166,806
Liabilities				
Segment liabilities	22,546	81,767	65,005	169,318
Total liabilities				169,318

Segment information for the comparative period has been restated to reflect the change in accounting policy. Refer to note 3.

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	
	1 Jan 2020 to 30 Jun 2020 US\$'000	1 Jan 2019 to 30 Jun 2019 US\$'000	30 Jun 2020 US\$'000	31 Dec 2019 US\$'000
Australia	1,993	2,217	11,745	12,077
United States	(6,809)	(4,216)	31,749	39,235
	(4,816)	(1,999)	43,494	51,312

Note 4. Operating segments (continued)

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

Note 5. Net loss from disbursement funding/medical lien funding

	Consolidated	
	1 Jan 2020 to 30 Jun 2020 US\$'000	1 Jan 2019 to 30 Jun 2019 US\$'000
Disbursement funding - Australia:		
Fair value gain on financial assets at fair value through profit or loss	507	2,149
Medical lien funding - USA:		
Interest income at amortised cost	4,550	911
Net impairment losses on financial assets at amortised cost	(11,737)	(1,129)
Net settlement gains/(losses) on financial assets at amortised cost	300	(4,087)
	<u>(6,887)</u>	<u>(4,305)</u>
	<u>(6,380)</u>	<u>(2,156)</u>

Due to the portfolio calculation approach used for the medical lien funding receivables acquired as part of the business combination with LawFinance Limited, it was not possible to accurately separate impairment gains/losses arising on settlement of those receivables as at 31 December 2019. This portfolio calculation was enhanced to report the appropriate disclosure as at 30 June 2020.

The net impairment losses on financial assets at amortised cost are a result of a reduction in the total expected realisable value of the receivables as a percentage of the face value of those receivables. This reduction in the total expected realisable value has been applied across the whole medical lien funding portfolio and relates to the lower realisations achieved since the COVID-19 pandemic. Since March 2020 the Group has accepted lower collections than it previously accepted to ensure that it had sufficient cash balances to trade through the COVID-19 pandemic period.

Note 6. Other revenue

	Consolidated	
	1 Jan 2020 to 30 Jun 2020 US\$'000	1 Jan 2019 to 30 Jun 2019 US\$'000
Interest received – short-term lending	10	19
Brokerage commission received – insurance	-	14
Rebates received - medical lien funding	14	20
Rental income	32	103
Administration fees	-	1
Government grants	76	-
Non-case related settlements - NHF	32	-
Interest adjustment - vendor loan	1,400	-
Other revenue	<u>1,564</u>	<u>157</u>

Note 6. Other revenue (continued)

Government grants

During the year the Group received payments from the Australian Government amounting to \$76,000 as part of its 'Boosting Cash Flow for Employers' scheme in response to the COVID-19 pandemic. These non-tax amounts have been recognised as government grants and recognised as other income once there is reasonable assurance that the Group will comply with any conditions attached.

Interest adjustment – vendor loan

As a result of the write-off of the vendor loan the Group reversed the interest that had previously been capitalised to this vendor loan during the period.

Note 7. Other income

	Consolidated	
	1 Jan 2020 to 30 Jun 2020 US\$'000	1 Jan 2019 to 30 Jun 2019 US\$'000
Litigation contracts in progress – settlements and judgements	473	636
Litigation contracts in progress – expenses	-	(57)
Interest income	1	2
	<hr/>	<hr/>
Other income	474	581
	<hr/>	<hr/>

Note 8. Expenses

	Consolidated 1 Jan 2020 to 30 Jun 2020 US\$'000	1 Jan 2019 to 30 Jun 2019 US\$'000
(Loss) before income tax includes the following specific expenses:		
<i>Impairment gain on financial liabilities*</i>		
Adjustment – vendor loan	(10,602)	-
Adjustment – promissory notes payable	(9,000)	-
	<u>(19,602)</u>	<u>-</u>
<i>Employee benefits expense</i>		
Defined contribution superannuation expense	38	36
Employee benefits expense excluding superannuation	<u>2,560</u>	<u>2,691</u>
	<u>2,598</u>	<u>2,727</u>
<i>Depreciation and amortisation expense</i>		
Depreciation - property, plant and equipment	45	66
Depreciation - right-of-use assets	189	38
Amortisation - other intangibles	<u>778</u>	<u>145</u>
	<u>1,012</u>	<u>249</u>
<i>Impairment of assets</i>		
Other intangibles	-	67
Goodwill	<u>7,258</u>	<u>-</u>
	<u>7,258</u>	<u>67</u>
<i>Administration and other expenses</i>		
ASIC, ASX and share registry fees	21	60
Insurance	101	54
Legal and professional fees	944	698
Rent and office costs	(2)	182
Travel and accommodation	74	94
Short-term lease payments	14	55
Low-value assets lease payments	27	19
Other	<u>235</u>	<u>312</u>
	<u>1,414</u>	<u>1,474</u>
<i>Finance costs</i>		
Interest expense and line fees	8,558	9,088
Interest - right-of-use assets	<u>48</u>	<u>13</u>
	<u>8,606</u>	<u>9,101</u>

* As a result of the write-off of the vendor loan the Group reversed the interest that had previously been capitalised to this vendor loan during the period.

Note 9. Earnings per share

	Consolidated 1 Jan 2020 to 30 Jun 2020 US\$'000	1 Jan 2019 to 30 Jun 2019 US\$'000
(Loss) after income tax	(14,264)	(12,628)
Non-controlling interest	(907)	783
(Loss) after income tax attributable to the owners of LawFinance Limited	<u>(15,171)</u>	<u>(11,845)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>820,925,536</u>	<u>483,635,467</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>820,925,536</u>	<u>483,635,467</u>
	Cents	Cents
Basic loss per share	(1.85)	(2.45)
Diluted loss per share	(1.85)	(2.45)

The Company excluded, 71,500,000 options on issue (30 June 2019: nil), 14,000 convertible bonds (30 June 2019: 50,000) and 452,743,636 warrants (30 June 2019: 452,743,636), from the diluted earnings calculations as they are anti-dilutive for the financial half-year.

Note 10. Cash and cash equivalents

	Consolidated 30 Jun 2020 US\$'000	31 Dec 2019 US\$'000
<i>Current assets</i>		
Cash at bank and on hand	<u>2,714</u>	<u>5,777</u>

Short term cash deposits are used as bank guarantee security. Refer to note 25.

Note 11. Financial assets at fair value through profit or loss

	Consolidated 30 Jun 2020 US\$'000	31 Dec 2019 US\$'000
<i>Current assets</i>		
Loan receivables - disbursement funding - Australia (gross)	15,194	16,877
Fair value movement	(3,270)	(3,198)
Unrecognised day 1 margin	(601)	(719)
Allowance for expected credit losses	(686)	(700)
	<u>10,637</u>	<u>12,260</u>
<i>Non-current assets</i>		
Loan receivables - disbursement funding - Australia (gross)	12,247	14,733
Fair value movement	(2,636)	(2,791)
Unrecognised day 1 margin	(1,512)	(2,019)
	<u>8,099</u>	<u>9,923</u>
	<u><u>18,736</u></u>	<u><u>22,183</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 2019: US\$nil) which are past due but not impaired. The Company believes the amounts are fully recoverable.

Note 12. Financial assets at amortised cost

	Consolidated 30 Jun 2020 US\$'000	31 Dec 2019 US\$'000
<i>Current assets</i>		
Loan receivables - medical lien funding - USA (gross)	48,364	46,043
Allowance for expected credit losses	(32,162)	(28,807)
	<u>16,202</u>	<u>17,236</u>
<i>Non-current assets</i>		
Loan receivables - medical lien funding - USA (gross)	134,245	149,310
Allowance for expected credit losses	(89,272)	(93,415)
	<u>44,973</u>	<u>55,895</u>
	<u><u>61,175</u></u>	<u><u>73,131</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 and is based upon historical loss rates.

Note 12. Financial assets at amortised cost (continued)

Since March 2020, the Group's collections have been adversely impacted as a result of the COVID-19 pandemic and the various government restrictions on people movement and activity. Accordingly, the Group has accepted lower collections than it previously accepted to ensure that it had sufficient cash balances to trade through the COVID-19 pandemic period. These lower collections rates have been applied across the whole medical lien funding portfolio and thus the total expected realisable value of the receivables as a percentage of the face value of those receivables has been reduced. This adjustment resulted in an impairment of \$11,737,000 which was incurred during the period.

Note 13. Other loans and receivables

	Consolidated	
	30 Jun 2020	31 Dec 2019
	US\$'000	US\$'000
<i>Current assets</i>		
Other trade receivables	50	70
Short-term loans	244	283
	<u>294</u>	<u>353</u>
Other receivables	1,012	1,301
Goods and services tax receivable	37	-
	<u>1,343</u>	<u>1,654</u>
<i>Non-current assets</i>		
Other receivables	5	5
	<u>1,348</u>	<u>1,659</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 14. Investment held in joint operations

	Consolidated	
	30 Jun 2020	31 Dec 2019
	US\$'000	US\$'000
<i>Non-current assets</i>		
Investment in joint operation	1,133	1,157

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 15. Property, plant and equipment

	Consolidated	
	30 Jun 2020	31 Dec 2019
	US\$'000	US\$'000
<i>Non-current assets</i>		
Leasehold improvements - at cost	57	57
Less: Accumulated depreciation	(57)	(57)
	-	-
Plant and equipment - at cost	432	433
Less: Accumulated depreciation	(310)	(265)
	122	168
	122	168

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Plant and equipment US\$'000
Balance at 1 January 2020	168
Additions	3
Exchange differences	(4)
Depreciation expense	(45)
Balance at 30 June 2020	122

Note 16. Goodwill

	Consolidated	
	30 Jun 2020	31 Dec 2019
	US\$'000	US\$'000
<i>Non-current assets</i>		
Goodwill - Australian disbursement funding business	4,074	4,159
Goodwill - US medical lien funding business	29,087	36,345
	33,161	40,504

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

	Australian disbursement funding business US\$'000	US medical lien funding business US\$'000
Balance at 1 January 2020	4,159	36,345
Foreign currency translation	(85)	-
Impairment	-	(7,258)
Balance as at 30 June 2020	4,074	29,087

Note 16. Goodwill (continued)

Goodwill - Australian disbursement funding business

Goodwill arose from the acquisition of the Macquarie Medico Legal business in 2016 and is allocated to the Australian cash generating unit ('CGU'). 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 17.63% (31 December 2019: 15%) and cash flows beyond the five-year period are extrapolated using a 1% (31 December 2019: 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 CGU, 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 19.9% (31 December 2019: 19%) 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 10.5% (31 December 2019: negative 9%) 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 CGU. 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 11.17% (31 December 2019: 11%) and cash flows beyond the five-year period are extrapolated using a 1% (31 December 2019: 1%) growth rate.

The recoverable amount of this CGU \$66,081,000 as at 30 June 2020, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. It was concluded that the fair value less costs of disposal did not exceed the value in use. As a result of this analysis, management has recognised an impairment charge of \$7,258,000 in the current year against goodwill with a carrying amount of \$40,504,000 as at 31 December 2019. The impairment charge is recognised within expenses in the consolidated statement of profit or loss and other comprehensive income.

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

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

- Discount rates; and
- Growth rate estimates.

Note 16. Goodwill (continued)

Discount rates

Discount rates represent the current market assessment of the risks specific to the business unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ('WACC'). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of 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.

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 17. Other intangibles

	Consolidated 30 Jun 2020 US\$'000	31 Dec 2019 US\$'000
<i>Non-current assets</i>		
Website - at cost	17	17
Less: Accumulated amortisation	(12)	(13)
	<u>5</u>	<u>4</u>
Customer relationships – US medical lien funding business	1,913	1,913
Less: Accumulated amortisation	(335)	(239)
	<u>1,578</u>	<u>1,674</u>
Litigation contracts in progress - capitalised external costs	5,387	5,594
Litigation contracts in progress - capitalised internal costs	864	768
	<u>6,251</u>	<u>6,362</u>
	<u><u>7,834</u></u>	<u><u>8,040</u></u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Website US\$'000	Customer relationships US\$'000	Litigation contracts in progress US\$'000	Total US\$'000
Balance at 1 January 2020	4	1,674	6,362	8,040
Additions*	-	-	702	702
Exchange differences	1	-	(131)	(130)
Amortisation expense	-	(96)	(682)	(778)
Balance at 30 June 2020	<u><u>5</u></u>	<u><u>1,578</u></u>	<u><u>6,251</u></u>	<u><u>7,834</u></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.

Note 17. Other intangibles (continued)

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

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

- (i) The estimated cost to complete the Litigation contracts in progress is budgeted, based upon estimates provided by the external legal advisor in charge of the litigation;
- (ii) The value of the Litigation contracts in progress, once completed, is estimated based upon the expected settlement or judgement amount of the litigation and the fees due to the Group under the litigation funding contract; and
- (iii) The discount rate applied to the cash flow projections is based on the Group's WACC; and other factors relevant to the particular Litigation contract in progress. The discount rate applied was 15% (31 December 2019: 15%).

As a result of the impairment testing performed an amount of \$nil (31 December 2019: \$458,000) 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 18. Deferred tax

	Consolidated 30 Jun 2020 US\$'000	31 Dec 2019 US\$'000
<i>Non-current assets</i>		
Deferred tax asset	4,167	12,579
Attributable to:		
- USA	-	7,044
- Australia	4,167	5,535
	4,167	12,579

The Group assessed the recoverable amount of the deferred tax asset based on future expected profits over the next three years, taking into account the challenging trading conditions caused by the COVID-19 pandemic. As a result of this assessment, the deferred tax asset attributable to USA has been derecognised. The deferred tax asset attributable to Australia was assessed as being fully recoverable over the next three years.

Note 19. Trade and other payables

	Consolidated 30 Jun 2020 US\$'000	31 Dec 2019 US\$'000
<i>Current liabilities</i>		
Trade and other payables	5,250	6,603
Accruals	2,146	2,650
Goods and services tax payable	-	69
	7,396	9,322

Trade and other payables are paid within agreed credit terms.

Note 20. Borrowings

	Consolidated 30 Jun 2020 US\$'000	31 Dec 2019 US\$'000
<i>Current liabilities</i>		
Vendor loan - Australian disbursement funding business (i)	-	315
Convertible bonds payable (ii)	-	3,500
Lucerne Group combined loan (iii)	2,729	11,642
Lucerne Group facility - US medical lien funding business (iv)	-	8,858
Paradise Diversified Holdings Limited Partnership (v)	7,931	4,163
Other NHF subordinated debt (vi)	1,319	1,180
Other NHF subordinated debt (vii)	1,000	1,000
Other NHF subordinated debt (viii)	3,250	3,000
Insurance financing - Australia	71	33
Washington H. Soul Pattinson & Company Limited (ix)	1,604	1,252
Washington H. Soul Pattinson & Company Limited (x)	2,228	2,275
Syndicated acquisition facility (xi)	30,688	29,396
NHF Founder Promissory Notes (xii)	-	9,000
Atalaya Capital Management (xiii)	34,276	41,603
Paycheck Protection Program loan (xvi)	268	-
Insurance financing - USA	31	55
Credit cards	56	103
	<u>85,451</u>	<u>117,375</u>
<i>Non-current liabilities</i>		
Convertible bonds payable (ii)	1,040	-
Lucerne Group combined loan (iii)	262	-
Lucerne Group facility - US medical lien funding business (iv)	-	3,264
Other NHF subordinated debt (viii)	1,500	1,750
Assetsecure Pty Limited loan (xiv)	18,237	21,447
Vendor loan - NHF Founders (xv)	-	13,612
Paycheck Protection Program loan (xvi)	327	-
Economic Injury Disaster Relief loan (xvii)	150	-
	<u>21,516</u>	<u>40,073</u>
	<u><u>106,967</u></u>	<u><u>157,448</u></u>

(i) Vendor loan - Australian disbursement funding business

The loan due to the vendor of the Australian disbursement funding business was repaid on 15 March 2020. Interest was payable at 11% (31 December 2019: 11%) per annum. The Group signed a variation agreement on 2 July 2019, with a monthly repayment schedule. The loan was unsecured.

(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 2019: 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. In the last six months, three bondholders have converted A\$3,600,000 (plus capitalised interest of A\$237,000) of bonds into ordinary shares. The remaining bonds maturity date has been extended to 31 December 2021.

Note 20. Borrowings (continued)

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 30 June 2020.

(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 was repayable on 31 December 2020. Ongoing interest payable was 13.5% per annum (31 December 2019: 13.5% per annum (including establishment fees)) on \$8,843,000 (31 December 2019: \$8,843,000). Ongoing interest payable was 15% per annum (31 December 2019: 15%) on \$2,799,000 (31 December 2019: \$2,799,000). 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 30 June 2020.

In the last six months, the Company either repaid the majority of this loan by issue of equity or the loan was converted into the Capitalising Converting Note (refer to note 22). The outstanding balance as at 30 June 2020 of US\$2,991,000 (A\$4,363,000) has been split into three loans, as follows:

- (a) A total of US\$262,000 (A\$382,000) which is repayable on 31 December 2021;
- (b) A total of US\$1,560,000 (A\$2,275,000) was repayable on 31 December 2019. The Group is currently in discussion to extend the repayment date of this facility; and
- (c) A total of US\$1,169,000 (A\$1,706,000) was repayable on 31 December 2019. The Group is currently in discussion to extend the repayment date of this facility.

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

Lucerne Finance Pty Limited and the Principis Master Fund had jointly provided facilities totalling \$12,122,000 (31 December 2019: \$12,122,000) to the medical lien funding business as at 30 June 2020. \$8,858,000 of this facility was repayable on 28 September 2020 with an interest rate of 19% per annum (31 December 2019: 19%), \$2,550,000 of this facility was repayable on 9 August 2021 with an interest rate of 9.95% per annum (31 December 2019: 9.95%) and \$714,000 of this facility was repayable on 13 September 2021 with an interest rate of 15.50% per annum (31 December 2019: 15.50%).

In the last six months, the Company either repaid this loan by issue of equity or the loan was converted into the Capitalising Converting Note (refer to note 22).

(v) Paradise Diversified Holdings Limited Partnership

This facility of \$7,931,000 (31 December 2019: \$4,163,000) has been provided to fund the investment in specific accounts receivable in the US. This facility is repayable on 30 September 2020 and can be repaid by the Company earlier without penalty. Interest payable under this facility is 30% per annum (31 December 2019: 30%). The loan is guaranteed by NHF and LawFinance.

(vi) Other NHF subordinated debt

A third party has provided a \$1,319,000 facility (31 December 2019: \$1,180,000) to fund working capital of the business which remains payable as at 30 June 2020. This facility is repayable on 31 January 2021. Interest payable under this facility is 24% per annum and can be repaid early without penalty (31 December 2019: 24%). The loan is guaranteed by NHF and LawFinance.

Note 20. Borrowings (continued)

(vii) Other NHF subordinated debt

A third party has provided a \$1,000,000 facility to NHF which remains payable as at 30 June 2020 (31 December 2019: \$1,000,000). The facilities are repayable on demand. Interest is payable at 12% per annum (31 December 2019: 12% per annum). The loan is unsecured.

(viii) Other NHF subordinated debt

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

(ix) Washington H. Soul Pattinson & Company Limited

Washington H Soul Pattinson & Company Limited ('WHSP') have provided a \$1,604,000 (A\$2,340,000) (31 December 2019: \$1,252,000 (A\$1,789,000)) loan to the Group. The loan was repayable on 30 June 2020. The Group is currently in discussions with WHSP concerning the repayment of this loan. Interest payable under this loan is 15% per annum (31 December 2019: 15%) on \$1,478,000 (A\$2,156,000) and 18% per annum (31 December 2019: 18%) on \$126,000 (A\$184,000). 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).

(x) Washington H. Soul Pattinson & Company Limited

WHSP have also provided a \$2,228,000 (A\$3,250,000) (31 December 2019: \$2,275,000 (A\$3,250,000)) deferred financing arrangement, giving the Group the ability to defer interest payments payable under the Syndicated Acquisition Facility. The deferred financing arrangement was repayable on 30 June 2020. The Group is currently in discussions with WHSP concerning the repayment of this loan. Interest payable under this arrangement is 15% per annum (31 December 2019: 15%). 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).

(xi) Syndicated acquisition facility

The Syndicated acquisition facility of \$28,791,000 (A\$42,000,000) (31 December 2019: \$29,396,000 (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 2019: 13% per annum). Interest has been accrued under this facility for the period and therefore the balance as at 30 June 2020 was \$30,688,000 (A\$44,767,000). 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 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 half-year ended 30 June 2020, including the non-payment of interest. The Group continues its discussions with the Majority Lender of the facility. Those discussions include provisions to pay the unpaid interest at a later date and changes to the covenants. Despite the fact that the facility is repayable on 28 September 2022, and no facility members have demanded the facility be repaid, the facility has been classified as a current liability (31 December 2019: current).

(xii) NHF Founder Promissory Notes

As a result of the restatement of the 31 December 2019 comparatives (refer to note 3), these Promissory Notes were forgiven in full during this current reporting period, with the Company issuing various options to the Founders in March 2020. The options were approved by shareholders at the extraordinary general meeting on 10 March 2020, and issued on 13 March 2020. The Promissory Notes were interest free (31 December 2019: interest free). The Promissory Notes were unsecured.

(xiii) Atalaya Capital Management ('Atalaya')

The loan facility of \$80,000,000 (31 December 2019: \$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 13.5% per annum (31 December 2019: 12.76% per annum) and the undrawn line fees are 1% (31 December 2019: 1%).

Note 20. Borrowings (continued)

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 would be waived if the Group complied with the forbearance arrangement by 31 January 2020. The Group received confirmation that it had complied with the waiver conditions on 28 February 2020.

However, as a result of the effects of the COVID-19 pandemic, additional breaches of the facility have occurred during the period. Although Atalaya have not demanded the facility be repaid, as several covenants were breached during the current reporting period, it has been reclassified as a current liability (refer to note 3).

(xiv) Assetsecure Pty Limited ('Assetsecure')

This loan facility of \$27,420,000 (A\$40,000,000) (31 December 2019: \$27,996,000 (A\$40,000,000)) 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 7.45% per annum (31 December 2019: 7.70% per annum) on the drawn down amounts and the facility line fee is 1% per annum (31 December 2019: 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 30 June 2020.

(xv) Vendor loan - NHF Founders

As a result of the restatement of the 31 December 2019 comparatives (refer to note 3), this loan was forgiven in full during this current reporting period, with the Company issuing various options to the Vendors in March 2020. The options were approved by shareholders at the extraordinary general meeting on 10 March 2020, and issued on 13 March 2020. There was no interest payable under this facility in the current reporting period (31 December 2019: 13% per annum). The loan was unsecured.

(xvi) Paycheck Protection Program loan

The Paycheck Protection Program Loan (or PPP Loan), was made available by the U.S. Small Business Administration. The PPP Loan was made available to US businesses in order to help bridge the economic gap that arose during the COVID-19 pandemic and is to be utilised mainly for payroll (60%) and rent, mortgage interest payments and utilities (40%). The Group has 24 weeks to utilise all the funds from the date the loan proceeds were received. The Company received the loan funds on 17 April 2020.

Interest payable is 1% per annum until the loan is repaid in full, or forgiven under various US loan forgiveness programs. Loan forgiveness can be applied for in relation to this loan under Section 1106 of the Coronavirus Aid, Relief and Economic Security Act. This forgiveness can potentially be the entire amount of the loan other than an amount considered to be the Economic Injury Disaster Advance amount received (EIDL Advance), if any. The Group received \$10,000 as an EIDL Advance as part of its PPP Loan. The Company's preliminary calculations show that it should be able to apply for the forgiveness of this loan, except for the \$10,000 EIDL Advance. If the loan forgiveness is not granted, the Company must repay the whole loan over an 18 month period at approximately \$33,500 each month, commencing on 13 November 2020, until the loan and its associated interest is repaid in full.

(xvii) Economic Injury Disaster Relief loan

The Economic Injury Disaster Relief loan (or EIDL Loan), of \$150,000 was made available to the Company by the U.S. Small Business Administration on 16 June 2020. Interest at 3.75% per annum is payable under this EIDL Loan. Repayments, including principal and interest, of \$731 per month, commence on 26 July 2021. The loan term is 30 years.

Note 20. Borrowings (continued)

Financing arrangements

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

	Consolidated	
	30 Jun 2020 US\$'000	31 Dec 2019 US\$'000
Total facilities		
Assetsecure Pty Limited loan*	27,420	27,996
Atalaya Capital Management**	80,000	80,000
NHF founder promissory notes	-	9,000
Syndicated acquisition facility	28,791	29,396
	<u>136,211</u>	<u>146,392</u>
Used at the reporting date		
Assetsecure Pty Limited loan*	18,237	21,447
Atalaya Capital Management**	34,276	41,603
NHF founder promissory notes	-	9,000
Syndicated acquisition facility	28,791	29,396
	<u>81,304</u>	<u>101,446</u>
Unused at the reporting date		
Assetsecure Pty Limited loan*	9,183	6,549
Atalaya Capital Management**	45,724	38,397
NHF founder promissory notes	-	-
Syndicated acquisition facility	-	-
	<u>54,907</u>	<u>44,946</u>

* The facility can be drawn-down based upon various calculations relating to the underlying disbursement funding receivables. As at 30 June 2020, \$247,000 could be drawn down as a result of these calculations (31 December 2019: \$nil).

** The facility can be drawn-down based upon various calculations relating to the underlying medical lien funding receivables. As at 30 June 2020, \$360,000 could be drawn down as a result of these calculations (31 December 2019: \$nil).

Note 21. Issued capital

	Consolidated			
	30 Jun 2020 Shares	31 Dec 2019 Shares	30 Jun 2020 US\$'000	31 Dec 2019 US\$'000
Ordinary shares - fully paid	<u>966,630,045</u>	<u>561,760,467</u>	<u>57,641</u>	<u>40,924</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price*	US\$'000
Balance	1 January 2020	561,760,467		40,924
Issue of shares - rights issue**	21 February 2020	330,923,639	US\$0.042	13,957
Issue of shares - conversion of convertible bonds	2 April 2020	819,090	US\$0.040	33
Issue of shares - litigation settlement	2 April 2020	14,000,000	US\$0.040	558
Issue of shares - conversion of convertible bonds	20 May 2020	59,126,849	US\$0.041	2,451
Share issue costs		-	US\$0.000	(282)
Balance	30 June 2020	<u>966,630,045</u>		<u>57,641</u>

Note 21. Issued capital (continued)

- * During the current reporting period, all shares were issued at A\$0.064 per share.
** The cash received from the rights issue was US\$5,345,000 (A\$8,210,000) and the balance related to debt to equity conversion.

Note 22. Capitalising converting notes

	Consolidated	
	30 Jun 2020	31 Dec 2019
	US\$'000	US\$'000
Capitalising converting notes	13,503	-

On 9 June 2020, the Company issued 188,972,861 Capitalising converting notes ('CCN') at a face value of A\$0.10 per share to convert A\$18.9 million of existing subordinated debt owed by the Company. The noteholders may elect to convert the notes into ordinary shares before 31 December 2022. The CCN accrues the noteholder interest at 6% per annum and this interest is also convertible into ordinary shares, and not payable in cash.

Financial instruments issued by the Company are classified as equity when they do not meet the definition of a financial liability. The CCN's do not create a contractual obligation to deliver cash to the noteholder and the number of ordinary shares to be issued upon conversion is fixed at 223,414,026, hence these CCN's have been classified as equity. The capitalised interest is calculated quarterly and this interest will be classified as equity on a quarterly basis until the notes are converted into ordinary shares, or until 31 December 2022. During the period \$227,000 (A\$349,000) of interest was transferred into equity (31 December 2019: nil).

Note 23. Reserves

	Consolidated	
	30 Jun 2020	31 Dec 2019
	US\$'000	US\$'000
Foreign currency reserve	2,260	782
Share-based payments reserve	6,118	5,996
	8,378	6,778

Movements in reserves

Movements in each class of reserve during the current financial half-year are set out below:

Consolidated	Foreign currency US\$'000	Share-based payments US\$'000	Total US\$'000
Balance at 1 January 2020	782	5,996	6,778
Foreign currency translation	1,478	-	1,478
Share-based payments	-	122	122
Balance at 30 June 2020	2,260	6,118	8,378

Note 24. Fair value measurement

Fair value measurement hierarchy for assets

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

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

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

Level 3: Significant unobservable inputs for the asset or liability

Consolidated - 30 Jun 2020	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	-	-	20,849	20,849
Total assets	-	-	20,849	20,849

Consolidated - 31 Dec 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

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 are as shown below.

The 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 5.32% (31 December 2019: 5.67%); 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 16.3% (31 December 2019: 11.9%).

Loan receivables fair value measurement – valuation process

Valuations are performed on a half-yearly basis. For the purpose of the valuation, Management collates 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 reviews any unusual movements noted.

Note 24. Fair value measurement (continued)

Reconciliation of fair value measurement of the loan receivables and deferred day 1 margin during the current half-year is set out below:

Consolidated	Fair value US\$'000	Deferred day 1 margin US\$'000	Total US\$'000
Balance at 1 January 2020	24,921	(2,738)	22,183
Cash disbursements in relation to new loans	1,606	-	1,606
New day 1 margin	-	(594)	(594)
Cash collections - disbursement funding	(5,089)	-	(5,089)
Gains or losses recognised in profit or loss	(76)	-	(76)
Amortisation of day 1 margin	-	1,162	1,162
Exchange rate movement	(513)	57	(456)
Balance at 30 June 2020	20,849	(2,113)	18,736

This reconciliation excludes other receivables and short-term loans.

The Loan receivables - disbursement funding - Australia (gross) balance was US\$27,441,000 as at 30 June 2020 (31 December 2019: US\$31,610,000).

Note 25. Contingent liabilities

Bank guarantees

The Group has given bank guarantees as at 30 June 2020 of \$103,000 (31 December 2019: \$104,000) 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 2019: 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 2019: 70%) of the amount spent by the plaintiff and that there is only one defendant per case.

At 30 June 2020 the total amount spent by the Group where undertakings to pay adverse costs have been provided was \$13,863,000 (31 December 2019: \$13,231,000). The potential adverse costs orders using the above methodology would amount to \$9,704,000 (31 December 2019: \$9,262,000). 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.

Litigation against NHF

NHF is involved in two separate proceedings (litigation) 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. There has been no change to the status of this case since 31 December 2019.

NHF is also involved with 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 payable to the plaintiff. There has been no change to the status of this case since 31 December 2019.

Note 26. Events after the reporting period

While there continues to be uncertainty relating to the future impacts of the COVID-19 pandemic, the Group faces a very challenging environment. However, there has not arisen in the interval between period end and the date of this report any item, transaction or event of a material and unusual nature that has affected the operations of the Group.

As at the date of this report none of the Group's financiers have demanded repayment of their loans despite existing and continued covenant breaches. All of the Group's financiers continue to support the Group. Management remains vigilant and closely monitors this pandemic and its impact on the Group as well as the position of its financiers.

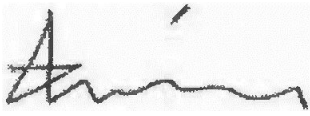
No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial half-year ended on that date; and
- as referred in note 2, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Tim Storey
Chairman

31 August 2020
Sydney

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of LawFinance Limited, which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the half-year ended on that date, condensed notes comprising a summary of statement of significant accounting policies and other explanatory information, and the directors' declaration for LawFinance Limited (the Consolidated entity). The consolidated entity comprises both LawFinance Limited (the Company) and the entities it controlled during the half year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of LawFinance Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Consolidated entity's financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standards AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Consolidated Entity 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 (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001 which has been given to the directors of the Consolidated entity, would be in the same terms if given to the directors as at the time of this auditor's review report.

Material Uncertainty regarding Going Concern

We draw your attention to note 2 and note 26 of the financial report which states that the financial report has been prepared on a going concern basis and describes the events which give rise to the existence of a material uncertainty that may cast significant doubt about the Consolidated entity's ability to continue as a going concern. As at 30 June 2020 the Consolidated entity had a working capital deficiency of \$62,521,000 (31 Dec 2019: \$90,187,000), cash and cash equivalents of \$2,714,000 (31 Dec 2019: \$5,777,000) and had incurred a loss before tax for the half year amounting to \$14,264,000 (2019: \$12,628,000). As at 30 June 2020 the Syndicated acquisition facility of \$30,688,000 and the Atalaya Capital Management loan of \$34,276,000 had breached covenants and their forbearance arrangements and been reclassified as current (refer note 20). The loans have not been called for at the date of this report.

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 including various covenants breaches, collecting its outstanding disbursement receivables books in accordance with its budgeted cashflows, and/or raising additional capital (debt or equity). In the event that the Board does not successfully realise cashflows from the expected legal case completions, renegotiating its financing arrangements including the various covenant breaches, collecting its outstanding disbursement receivables books in accordance with its budgeted cashflows, and/or raising additional capital (debt or equity), the consolidated entity may not be able to realise its assets and discharge its liabilities in the normal course of business and/or as and when they fall due.

Material Uncertainty regarding the recoverability of goodwill and deferred tax assets

We draw your attention to Notes 16 and 18 which describe the Goodwill and the Deferred Tax Assets of the Consolidated Entity. The recoverability of the carrying value of goodwill of \$33,161,000 (31 Dec 2019: \$40,504,000) and deferred tax assets of \$4,167,000 (31 Dec 2019: \$12,579,000) for the consolidated entity, is dependent upon the entity earning sufficient taxable profits in the future years to utilise the deferred tax assets and producing cashflows in accordance with budgets. If the consolidated entity does not generate enough taxable profits in the future years, the tax assets will need to be expensed and the carrying value of Goodwill be impaired.

We also draw attention to the recent market uncertainty arising from the spread of the COVID-19 virus and its effects on the business environment in Australia and USA. Management is reviewing what impact, if any, this will have on their business.

Our conclusion is not modified in respect of these matters.

Directors' Responsibility for the Half-Year Financial Report

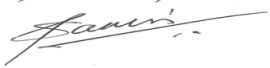
The directors of LawFinance Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable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

Auditor's Responsibility for the review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Consolidated entity's financial position as at 30 June 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Stantons International Audit and Consulting Pty Ltd


Samir Tirodkar
Director
West Perth, Western Australia
31 August 2020

