



ASX Announcement (ASX: LAW)

27 July 2022

Quarterly Activities Report – June 2022 Quarter

The Board of LawFinance Limited (“LawFinance” or “the Company”) is pleased to provide the following quarterly update.

June 2022 quarter (2Q22) KPI and commentary:

- **Capital Raised**

As announced on 5 May 2022, we successfully completed the Capital Raising, which strengthened LawFinance’s balance sheet and provided funding to invest in new originations, including the Portfolio Transaction announced to the market on 1 April 2022 (“the Portfolio Transaction”). We have already funded two tranches of the Portfolio Transaction totalling \$5.4 million.

- **Originations¹ - US\$6.3 million**

Originations reached their highest level for a quarter since LawFinance acquired the NHF business in 2018. The highlight for the quarter was completing the collateral review and funding the first c.\$5.4 million of advances under the Texas Portfolio Transaction. In addition to this funding the Company executed a further c.\$0.9 million of organic originations.

- **Cash Collections (case related)² - US\$3.7 million**

Cash collected from the PFG and EFI books of receivables was \$2.3 million and \$1.4 million, respectively. Cash collections for the quarter were 31% higher than 1Q22 levels, excluding refunds. The quarter saw a significant increase in collections from Michigan receivables across both portfolios, while the remainder of receivables collected in line with expectations.

The Multiple on Capital Employed (“MOCE”) for the PFG book averaged 1.3x, which was down on 1Q22 levels (1.5x). However, the MOCE on non-Michigan claims was in line with target levels at 1.5x, while the MOCE on Michigan collections averaged just above 1.0x (1.1x across both the PFG and EFI books). Management had expected Michigan receivables to collect lower than other receivables.

Michigan collections totalled \$1.5 million for the quarter as bottlenecks holding up release of settlement proceeds, continued to be released. Commercial terms were also reached with the second largest Michigan medical provider and its other funder who had asserted rights over receivables sold to NHF. Management expects to finalise this agreement in 3Q22, which would include a release of the other funders rights over NHF’s receivables and proceeds held in trust.

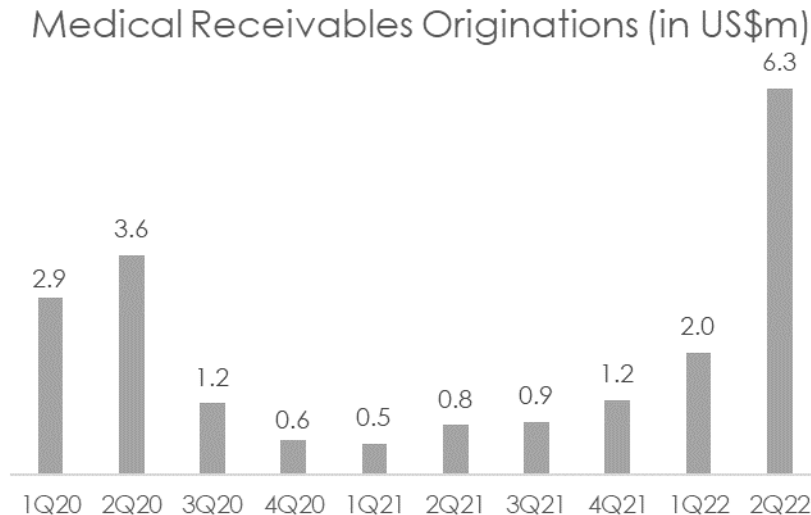
¹Originations: This is the new cash funding deployed for the purchase of medical receivables and funding advances made under letters of credit, backed/collateralised by medical receivables for the PFG book

² Cash collections: includes \$0.3 million of refunds relating to returns of paper from the prior quarter within the PFG book.

Operational Overview

Originations and book size

Continued growth in originations levels since the end of 2021, has seen the original cost value of the PFG book grow to \$23 million as at 30 June 2022, with 74% comprised of purchased medical lien claims and 24% from collateralised letters of credit to medical service providers.



NHF advanced \$5.4 million of funding under the Portfolio Transaction, in the quarter. Under the letter of credit agreements, to provide up to \$10 million of funding, subject to the provision of sufficient eligible collateral, there is a potential further \$4.7 million of advances to be provided. The Texan providers have indicated that they will not seek this further funding until later in 2022. A significant portion of the Company's resources were focused on completing collateral vetting of close to 5,000 claims collateralising the \$5.4 million of funding advanced in the quarter.

Focus in 3Q22 has now reverted to executing on the growing organic funding opportunities, as well as sourcing further portfolio opportunities. The economic environment in the US appears to already be driving further funding opportunities for NHF across an array of insurance backed receivables classes (in addition to medical lien claims). The costs of doing business for Medical Providers is increasing and access to traditional capital sources is tightening, which is driving demand for specialty working capital funders such as ours.

Cash Collections

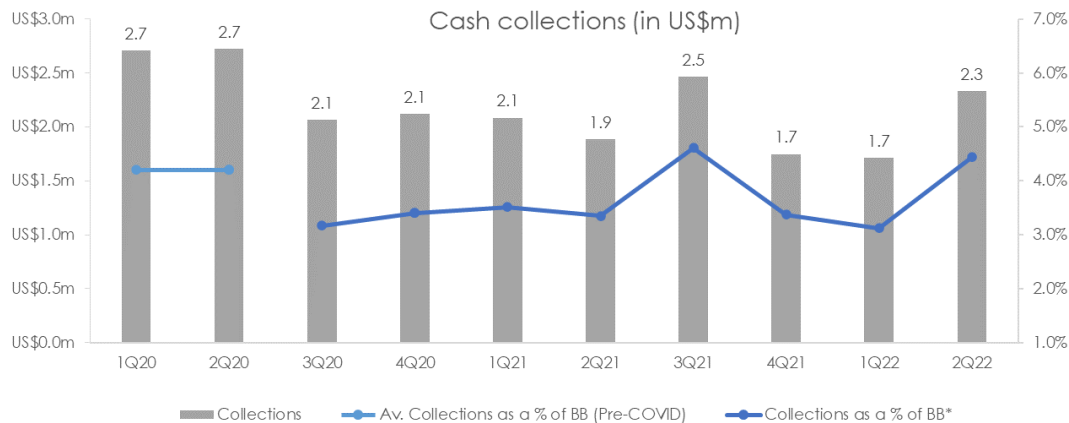
The NHF portfolio is managed as two separate sub-portfolios funded by different funders. The legacy portfolio is funded by Efficient Frontier Investing (EFI) and is comprised of receivables that are in various stages of litigation to mature receivables in their final stages of their settlement cycle (EFI book). The growth portfolio now funded by PFG is the focus of growth initiatives currently being undertaken by the team at NHF (PFG book).

Cash Collections (PFG book)

Cash collections in 2Q22, increased 18% from 1Q22 levels (excluding refunds), as receipts from the settlement of Michigan claims continued to pick up on previous periods as the bottleneck holding up receipts of proceeds from the largest Michigan medical service provider, was fully released.

While no funds were received from the second largest Michigan medical services provider, we reached commercial terms for an agreement that, if finalised, will allow for the release of all funds held in Trust to NHF.

Collections were 4.4% of the monthly borrowing bases, which was above the overall average collections since the commencement of COVID impacts.



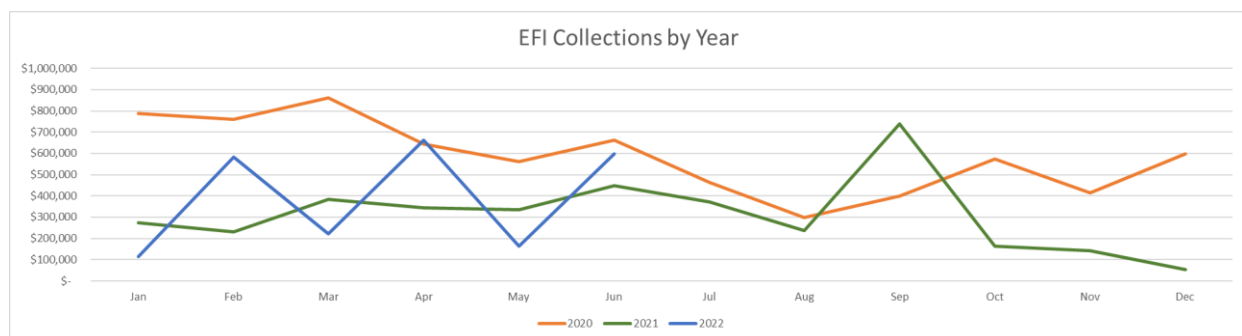
**For this analysis, we have excluded the recently funded Portfolio Transaction which is a loan and does not have compulsory principal repayments in the first 18 months.*

Recovery rates in terms of the MOCE achieved on collections outside of Michigan were 1.5x in 2Q22, continuing the improvement trend from late 2021. These MOCE's achieved are approaching the pre-COVID levels.

Cash Collections (EFI book)

EFI Portfolio collections significantly increased in 2Q22 (\$1.4m) as compared to 4Q21(\$0.9m). Michigan collections for the quarter were \$0.9 million, which was the primary driver of this increase.

Average monthly recoveries continue to fluctuate in line with the composition of the portfolio being in part, in various stages of litigation and in part, mature receivables nearing the end of their respective settlement cycle.



- Commercial agreement was reached with EFI to pause covenant testing from 31 May 2022 to 31 December 2022, to allow for large litigation cases to be progressed. This agreement is currently being formalised.
- During June 2022, NHF was awarded a judgement debt of \$8.3 million in respect of the second largest litigation claim in the portfolio. This judgement was also granted by the Court against the owner of the medical practice personally. NHF are currently engaged in settlement discussions

with the medical service provider who is seeking to reach a negotiated outcome before NHF commence enforcing upon the judgement.

- A mediation hearing has been set for September 2022, in Florida in respect of the largest litigation claim in the EFI Portfolio. This mediation is hoped to provide clarity on the provider's commitment to resolving this claim consensually or whether continued litigation will be necessary.
- Management's estimated Loan to Value Ratio of the EFI facility is c.83% as at the end of June 2022.

Update on Origination Pipeline

- Trident Health Group ("TridentHG"):
 - Reached agreement on commercial terms with a leading US Hospital Management company that manages more than 1,300 acute care hospitals across the United States
 - The Hospital Management company is highly supportive and is looking for a long-term partnership
 - Legal documentation is now being prepared which will incorporate TridentHG's funding services into its agreements with hospitals to support the hospitals to optimise their funding and be compliant with the US Federal laws in respect of third party insured claims
 - We continue to expect to be operational in the second half of 2022
- Currently working to complete on 3 line of credit funding opportunities totally c.\$2 million of funding, which we hope to fund in 3Q22. This LOC funding opportunity continues to gain transaction with larger more sophisticated medical service providers.
- New large portfolio transactions have been identified for further assessment in 3Q22. We are also expecting to re-engage, in 4Q22, with the seller of the potential \$10-15 million Texas portfolio opportunity mentioned in the Quarterly Activities Report dated 29 April 2022.
- The Company has received a number of financing proposals that are being progressed to finance our Phase 2 growth plans.

Payments to related parties of the entity and their associates

As disclosed in Section 6.1 of the attached Appendix 4C, there were total payments of US\$322,463 to related parties for salaries and directors' fees paid to executive and non-executive directors. There were no other payments to related parties.

Authorised by:

The Board of Directors

For enquiries:

Phil Smith
Chief Financial Officer
LawFinance Limited
Tel: + 61 2 9696 0220
Email: phil.smith@lawfinance.com.au