



ASX Announcement (ASX: LAW)

31 January 2023

Quarterly Activities Report – December 2022 Quarter

The Board of LawFinance Limited (“LawFinance” or “the Company”) provides the following quarterly update.

December 2023 quarter (4Q22) KPI and commentary:

- **Capital Raising and refinancing**

With continued strong collections in 4Q22, the net outstanding debt of our Partners for Growth (PFG) asset backed facility reduced by 14%, from the end of 3Q22, to c.US\$10.8 million as at 31 December 2022. January 2023 has seen a continuation of strong collection levels which is materially reducing the debt balance outstanding under the PFG facility.

As announced on 15 November 2022, LAW announced that the Company and PFG, reached agreement on the operation of the PFG facility until 1 March 2023 following a breach of the Liquidity Covenant as disclosed in the September Quarterly Report on 31 October 2022 (“PFG Facility Modification”). The terms of the PFG Facility Modification were agreed to enable LAW to conduct a process to refinance the PFG facility and obtain funding for operations.

As discussed in our September 2022, Quarterly Activities Report dated 31 October 2022, we commenced a refinance process with US bank funders, targeting a completed refinance in 1Q23. During 4Q22, it became clear that a refinance with bank lenders was not a viable option. Bank funders that we approached sighted risk issues relating to the general financial health of the LAW and origination channel confidence as key reasons for not being able to provide an asset backed lending facility to LAW’s National Health Finance (“NHF”) business.

During 4Q22, focus turned to the credit fund and alternate financier market. We engaged Velocity Securities (VS) to support us with this process. VS is a boutique health care focused investment bank with whom we have a relationship. VS are working with three funds that have expressed interest in the refinancing. Over the coming weeks we expect to have clarity from VS as to whether these credit funds (or other parties) are prepared to proceed to a detailed due diligence process to provide NHF an asset backed facility that will enable the refinance of the PFG facility and headroom to recommence originations including funding the Trident HG joint venture if and when it becomes operational.

We are not yet at the point of negotiating facility terms with any of the parties introduced by VS however, we estimate that we would require in order of US\$ 3 million further funding in addition to the asset backed facility sought in order to enable the refinance and to fund the operational requirements of LAW. We are in discussions with LAW’s largest shareholder and the holders of the Capitalised Converting Notes (“CCN Holders”) regarding providing such funding (as announced on 3 January 2023) regarding providing this required funding. The maturity date of the CCN’s was extended until 31 March 2023 to facilitate these discussions. The ability to obtain this required funding is expected to be contingent on the terms of any new asset backed facility obtained and the speed of progress and their confidence levels in NHF’s new origination initiative (Trident Health Group) discussed further below.

In addition to the VS-led process, LAW is also working closely with LAW's largest shareholder regarding a funding proposal involving a large US-based special situations credit fund with more than US\$4 billion of funds deployed (including medical liens). The proposal envisages that other parties (primarily LAW's largest shareholder and CNN Holders would provide junior secured debt funding under this structure). This structure discussed would accommodate a more flexible funding solution (by means of a higher advance rate) to account for the gap in funding given that we do not expect to be able to refinance c.US\$4 million of Michigan contractual claims. We expect to have a better sense of the ability to complete a refinance on these proposed terms during February.

While we are making progress with the refinance process, it is slower than hoped and it is proving challenging. We continue to keep PFG updated on progress of the refinancing and we believe that they would consider to extend the PFG Facility Modification beyond 1 March 2023 given the strong collections in recent months. However, LAW expects that it would need to maintain the agreed cash buffer of US\$250k which would require interim funding support to achieve this. In relation to this, LAW is in discussions with its largest shareholder and the CCN Holders.

In addition to the above, critical initiatives, we continue to remain closely engaged with the key SAF Lenders. While they are concerned regarding the current financial position they remain supportive of LAW's plans. It is likely that when LAW completes its 31 December 2022 annual audited financial accounts that it would have breached the terms of the SAF facility as at 31 December 2022, and relief will be sought from the SAF. Indications from the key SAF Lenders is that they will be minded to provide the necessary support/covenant waivers subject to demonstrating progress on key initiatives including the refinancing of the PFG facility.

- **Cash Collections (case related) - US\$3.8 million**

Cash collected from the PFG and EFI books of receivables was US\$3.3 million and US\$0.5 million, respectively. The strong PFG book collections were driven by repayment of Letter of Credit funding (US\$1.6 million), while collections on purchased medical receivables of US\$1.7 million was below average of the first 3 quarters of the year (US\$2.1 million).

January 2023, collections on the PFG book have been very strong at over US\$1 million for the month.

- **Originations - US\$0 million**

As stated in the September 2022, Quarterly Activities Report dated 31 October 2022, we have paused originations while we focus on refinancing our asset backed lending facility in the US.

Focus during 4Q23, was firmly on progressing the Trident Health Group initiative and working on a large recurring broker deal in connection with our EFI Book financiers ("Broker deal").

- **Trident Health Group Update**

Trident Health Group ("THG") is now in contract negotiations with the largest hospital general purchasing organisation in the US ("US GPO"). The contract sets out the terms upon which THG and the US GPO will implement the programme for the first hospital in Arizona. As previously advised, if the programme with the first hospital is successful, the US GPO is prepared to roll the programme out more widely to the hospitals it manages in the US (c.1,300). LAW expects to commence contract discussions with the first hospital in February 2023 with implementation as soon as possible thereafter.



- **Operating Expenditure (OPEX)**

Average monthly OPEX of US\$0.36 million in 4Q22 represents a 25% reduction on 3Q22 levels, following the implementation of cost reduction initiatives in September 2022. When excluding payments relating to the employee restructuring implemented in September the average monthly OPEX was US\$0.34 million, and in line with expectations.

Cash Collections (detail)

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).

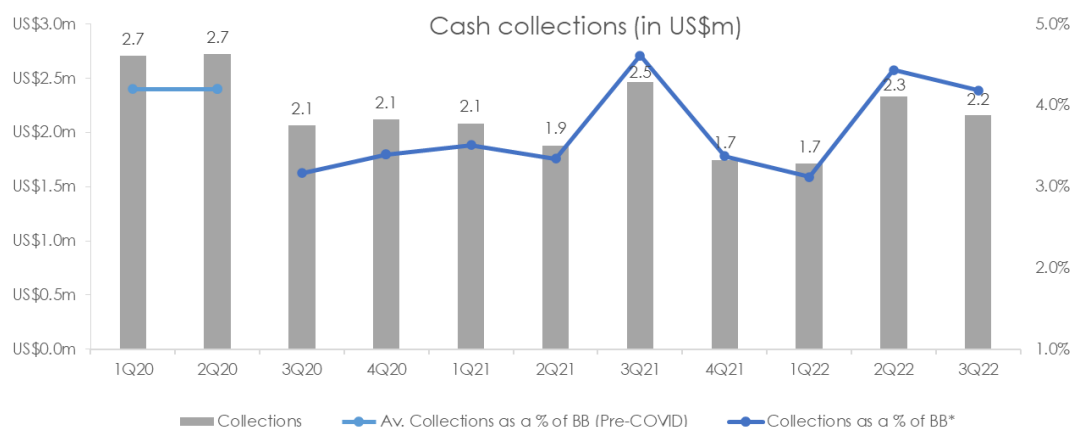
Cash Collections (PFG book)

Cash collections in 4Q22 of US\$1.7 million (excluding letter of credit repayments of US\$1.6 million), whereas the average of per quarter, for the first 3 quarters of 2022 was US\$2.1 million.

Receipts from the settlement of Michigan claims in the period were (US\$0.3 million). The settlement agreement relating to the second largest Michigan medical services provider, was finalised in 4Q22 which enabled funds previously held in Trust to be released to NHF. Of this amount received we are still investigating NHF's entitlement to retain US\$0.1 million of the funds received and we are also working with the debtors Court appointed Chief Restructuring Officer (CRO) to obtain further information to confirm that we have received all proceeds of collections that we were entitled to receive from the CRO under the agreement.

No material progress was made with resolving the contractual claims against the largest Michigan provider and accordingly NHF commenced legal action against the provider at the end of 4Q22.

Collections (excluding letter of credit receipts) were 3.3% of the monthly borrowing bases, which was below the overall average collections since the commencement of COVID impacts.



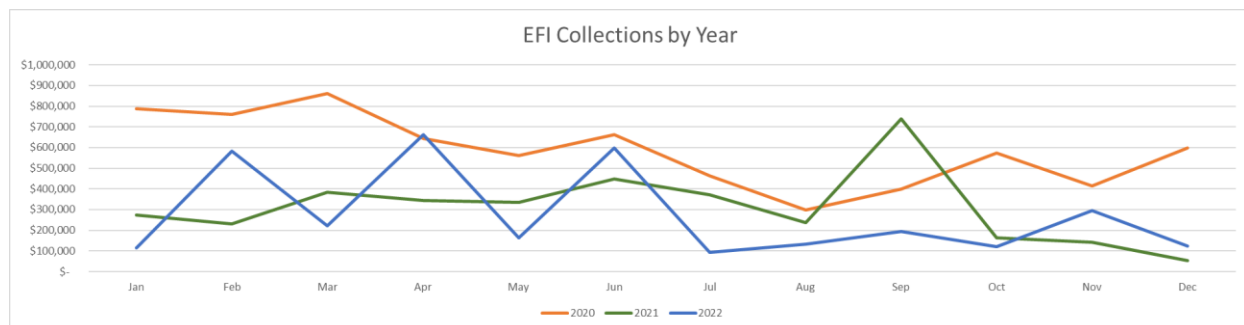
**For this analysis, we have excluded the collection of US\$5.4m Letter of Credit transaction across 3Q22 and 4Q22, given these loan repayments are not correlated with collections on underlying receivables.*

Recovery rates in terms of the Multiple of Capital Employed ("MOCE") achieved on collections outside of Michigan were 1.43x in 4Q22, which were below rates achieved during the 1H22 (c.1.5x).

Cash Collections (EFI book)

The EFI book collections were low again in 4Q22 (US\$0.5 million) however exceeded 3Q22 (US\$0.4 million). largely driven by Michigan collections for the quarter, following the execution of the settlement deal with the second largest Michigan provider (referred to above in the PFG commentary).

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.



- Management is currently in the process of finalising our valuation estimates of the EFI Book (and associated impairments) for accounting/reporting purposes as at 31 December 2022.
- Given the large litigation cases within the EFI Book and how they are progressing, the nature of the Court processes, and difficulties enforcing judgement debts against debtors who appear (based on available information) to have limited assets we expect to finalise significant provisions for doubtful debts as at 31 December 2022.
- We are currently in discussions with our Auditors who have commenced their work regarding finalising our valuations of EFI Book claims at 31 December 2022.
- Management estimate that once valuations are finalised, in line with finalising the 2022 audit process, the EFI Book will have a significant deficiency of value to the outstanding US\$24 million EFI loan. Preliminary estimates are that the asset deficiency may be as high as approximately 80% of the outstanding loan as at 31 December 2022.
- We note that the Company and EFI agreed not to test the LVR covenant on the EFI facility until 30 March 2023.
- Significant commentary was provided in LAW's Full Year December 2021 Annual Report dated 31 March 2022 ("2021 Annual Report") regarding the EFI facility, its SPV structure and the payment guarantee provided by LAW.
- Commentary in the 2021 Annual Report stated amongst other things *"under the terms of the Subordination Agreement with the SAF syndicated facility Lenders ('SAF Lenders'), EFI is prohibited from demanding payment under the guarantee (or otherwise) against the Company until the debt outstanding to the SAF Lenders is repaid in full or the Company notifies the SAF Lenders that the subordination arrangement under the Subordination Agreement has terminated (such notification cannot be given earlier than the date that is 10 business days prior to 4 November 2023)."*

**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\$122,503 to related parties for salaries and directors' fees paid to executive and non-executive directors for 4Q22. There were no other payments to related parties.

Authorised by:

The Board of Directors

For enquiries:

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

LawFinance Limited

ABN

72 088 749 008

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (12 months) \$USD'000
1.	Cash flows from operating activities		
1.1	Receipts from customers		
	(a) PFG book – Medical Liens Settled	1,660	7,851
	(b) PFG book - Lines of Credit		
	- Interest / Returns Received	65	227
	- Principal Repaid	1,557	5,367
	(c) EFI book – Medical Liens Settled	539	3,302
1.2	New origination payments		
	(a) Medical Lien Claims acquired	(11)	(3,034)
	(b) Lines of Credit Funding	-	(6,549)
1.3	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	-	-
	(c) advertising and marketing	(9)	(55)
	(d) leased assets	-	-
	(e) staff costs	(571)	(3,795)
	(f) administration and corporate costs	(514)	(2,315)
1.4	Dividends received (see note 3)	-	-
1.5	Income taxes paid	-	-
1.6	Government grants and tax incentives	-	-
1.7	PFG Working Capital Facility		
	(a) Interest Payments	(628)	(2,166)
	(b) Net Debt Movement	(1,682)	(2,981)
1.8	EFI Working Capital Facility		
	(a) Interest Payments	(740)	(2,985)
	(b) Principal Payments	159	(243)

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (12 months) \$USD'000
1.9	Net cash from / (used in) operating activities	(175)	(7,375)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	(5)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other – Insurance Commission	-	84
2.5	Other – Cash balance transfers associated with the sale of the Disbursement Funding and Litigation Case Funding businesses	-	-
2.6	Net cash from / (used in) investing activities	0	79

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	4,502
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(523)
3.5	Proceeds from borrowings - corporate	-	71
3.6	Repayment of borrowings - corporate	(1)	(1,002)

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (12 months) \$USD'000
3.7	Transaction costs related to loans and borrowings (including interest)	(4)	(17)
3.8	Dividends paid	-	-
3.9	Other – Repayment of Lease Liabilities	(10)	(36)
3.10	Net cash from / (used in) financing activities	(15)	2,995

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,654	5,509
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(175)	(7,375)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	0	79
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(15)	2,995
4.5	Effect of movement in exchange rates on cash held	(4)	252
4.6	Cash and cash equivalents at end of period	1,460	1,460

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$USD'000	Previous quarter \$USD'000
5.1	Bank balances	1,056	962
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other:		
	(a) Term Deposits for Bank Guarantees	-	-
	(b) Third Party LockBox Accounts	404	692
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,460	1,654

6. Payments to related parties of the entity and their associates	Current quarter \$USD'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	(122)
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$USD'000	Amount drawn at quarter end \$USD'000
7.1 Loan facilities	53,320	53,320
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	53,320	53,320

7.5 Unused financing facilities available at quarter end	0
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7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Refer to Attachment 'A' at the end of this Appendix 4C for details of the above financing facilities, and the 'unused financing facilities available at quarter end'.

As at 9 November 2022 the 2nd Waiver and Modification to the PFG Facility agreement became effective. Pursuant to this agreement with PFG, the previously available headroom under the facility became unavailable to the Company. Facility amendments were designed in order to support the conduct of a refinance process to refinance the PFG facility within the first quarter of 2023.

8. Estimated cash available for future operating activities	\$USD'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(175)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	1,460
8.3 Unused finance facilities available at quarter end (Item 7.5)	0
8.4 Total available funding (Item 8.2 + Item 8.3)	1,460
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	8.34

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

The levels of net cash used for operating activities are likely to be higher in future periods as compared to the quarter ending 31 December 2022 (\$175,000).

Receipts from customers in the quarter ending 31 December 2022 included approximately \$1.6 million pertaining to Lines of Credit funding. The relevant lines of credit were repaid in full. Accordingly, collections in future periods, pertaining to Lines of Credit funding, are unlikely to achieve levels achieved in 31 December 2022.

If unavailable/trapped cash of \$0.404m is excluded from Item 8.2, then the estimated quarters of funding available reduces to 6.03.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: LAW is currently in the process of refinancing the PFG facility as well as seeking to raise up to c. \$ 3 million of funding required to facilitate/support the refinance and to fund operating expenditure.

LAW has received limited interest to date from funders to refinance the PFG facility. However, LAW has engaged a specialist boutique investment bank to assist with this process and is expected to have clarity, from this financial advisor, in early February 2023 regarding interest from potential funders and the terms upon which interested parties may be prepared provide funding. Such terms will determine what funding may be released from the PFG Book to fund operations.

It is currently uncertain whether any of these refinance discussions will result in a successful refinance of the PFG facility and the extent to which such a refinance or funding (if successful) will release funding for operations.

Please refer to the December Quarter Activities Report for further commentary on funding discussions.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: The continuation of operations is dependent largely on successfully refinancing the PFG facility and obtaining funding for operations as detailed in the answer to question 2 above.

Original expectations from PFG were that the refinance would be completed by 28 February 2023. However, current expectations are that this timetable will not be achievable and more time will be required. Initial indications from PFG indicate that it is prepared to provide additional time to LAW to complete the refinance. We expect that interim funding of in the order of \$300,000 will be required to fund operations and obtain PFG's continued support for the refinance process through to 31 March 2023. LAW are engaged in discussions with two investors to provide this funding.

Collections from the PFG book of receivables will support LAW's current refinance and funding discussions. Collections in January 2023 have pleasingly been at levels that are significantly higher than previous months.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2023

Authorised by: "By the Board"

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Attachment 'A' - LawFinance Limited
Appendix 4C - 31 December 2022 - Section 8 - Financing facilities available

Provider	Total facility amount at quarter end USD\$'000	Amount drawn at quarter end USD\$'000	Date of Repayment	Interest and fees payable (per annum)	Secured (Y/N)	Description of Financing Facility
<u>Asset-backed lending facilities</u>						
Assetsecure Pty Limited	0	0	30/Jun/2022	0.00%	Y	This facility was used to fund the Australian disbursement funding business (JKF). On 30 April 2021, an amendment and restatement to a Standstill Agreement with AssetSecure was executed whereby LAW agreed to pay \$2m to AssetSecure in full and final settlement of LawFinance Ltd's potential exposure under the agreement with AssetSecure. During July 2022, the corresponding Term Deposit of A\$1m was called to settle the liability.
EFI	24,072	24,072	4/Dec/2023	12.50%	Y	This amortising facility relates to the run-off of the back book of the US medical lien receivables.
Partners for Growth	10,843	10,843	14/Apr/2024	11.75%	Y	This facility is used to fund the US medical lien and letter of credit (LOC) funding business.
Partners for Growth - Redraw Account	-50	-50				The Redraw Account is controlled by PFG where collections are deposited to, interest charged and redraws are made. The account was previously controlled by LAW until October 2021 and recorded as unavaible/trapped cash due to its lockbox nature.
<u>Corporate debt facilities</u>						
EQT - Syndicated Acquisition Facility - Tranche 1	15,308	15,308	28/May/2026	9.50%	Y	Shareholders at the company's recent AGM approved the restructure, which reduced the debt to a A\$23.8m facility with a reduced interest rate of 9.50% and repayable on maturity in two tranches i) A\$20m in 5 years and ii) A\$3.8m in 4 years. The remainder of the facility converted to equity. On 5 May 2022, Tranche 3 of A\$0.1m was drawn at an interest rate of 9.5% and repayable in 5 years to fund general corporate and working capital for the group. Interest for the December 2021, March 2022, June 2022 and September 2022 quarter has been capitalised as elected by LAW under the facility agreement.
EQT - Syndicated Acquisition Facility - Tranche 2	2,928	2,928	28/May/2025	9.50%	Y	
EQT - Syndicated Acquisition Facility - Tranche 3	72	72	28/May/2027	9.50%	Y	
Convertible Promissory Note	2	2	15/Sep/2022	0.00%	N	The issue of these shares is subject to shareholder approval at the next meeting of shareholders. In the event that the Company does not obtain shareholder approval, the Company must pay the outstanding amount in the form of a cash consideration. The cash settlement amount will be the number of shares issued multiplied by the Company's 7 day volume weighted average share price immediately prior to the date that the Company intends to pay the cash settlement amount. This remains unpaid in line with the companies strategy to manage cash diligently until it raises further capital
Capitalising Converting Note	-	-	31/Dec/2022	6.00%	N	This facility has now been classified as equity, as it is only payable as ordinary shares, not as cash. The quarterly capitalised interest is also converted to equity on a quarterly basis, and is also only payable as ordinary shares. This was voted on and agreed to by shareholders at the Company's Extraordinary General Meeting on 10 March 2020, and reflected in the Appendix 3G released to the market on 9 June 2020.
EIDL	145	145	26/Jul/2051	3.75%	N	This Economic Injury Disaster Relief Loan (EIDL) was made available by the US Small Business Administration to assist companies financially during the COVID-19 pandemic.
	\$53,320	\$53,320				