ASX Announcement (ASX: LAW) 28 February 2023

Preliminary FY2022 Accounts and Management Changes

LawFinance Limited ("LAW" or the "Company") announces today that the Company has lodged its preliminary 2022 full year accounts ("FY2022 Accounts") and made changes to the executive leadership team.

Preliminary FY2022 Accounts

The first half of 2022, saw the continuation of momentum that was developing at the end of 2021, both in terms of growing the book and returns achieved on settlements of medical lien claims, as stated in the Half Year Report for 2022 dated 31 August 2022 ("1H2022 Accounts"). In the first half of 2022, the Company's subsidiary National Health Finance ("NHF") acquired or funded approximately US$8 million of medical receivables, the most for more than two years. The majority of these originations were undertaken by a new product, a letter-of-credit ("LOC") funding, targeting larger medical provider groups.

However, in September and October 2022, US$5.3 million of LOC funding provided to two Texas medical providers in 1H2022, repaid earlier than expected all-be-it in compliance with the terms of the facilities and the NHF earned interest of 16% p.a. on the transaction. Unfortunately, in September 2022, the Company also technically breached the Liquidity Covenant under its Partners for Growth ("PFG") asset backed funding facility despite having approximately US$1 million of funding available under the facility which represented the 'equity component' of collections in September 2022.

The internal business originations team continued to underperform in 3Q2022, after investing in the team earlier in 2022 and seeing subsequent pipeline improvement, the team was unable to execute on monthly planned originations or provide sufficient confidence that they would originate at planned levels in the near term. At the end of 3Q2022, the internal business originations team was restructured out to reduce costs and align personnel with strategic priorities including focusing on advancing the Trident Health Group ("Trident HG") initiative as the main driver of future originations growth. Originations were also paused at the end of 3Q 2022, to conserve cash resources.

During October, PFG and the Company agreed that all collections from the PFG book of receivables would be applied to reduce the outstanding balance of the PFG facility. In November, US$1 million of funding was released to NHF by PFG as part of the Facility Modification detailed in our release on 16 November 2022. The Facility Modification and subsequent further support (refer to note 13 to the FY2022 Accounts) represents a collaborative approach between PFG and the Company, whereby PFG agreed to provide the Company a stable platform to the end of March 2023, to focus on advancing strategic priorities including the refinance of the PFG loan.

As part of the year-end audit process, the Company decided to impair its financial assets with net impairment losses brought to account in FY2022 of c.US$23 million, of which c.US$1 million was recorded in the first half of FY2022. These impairments raised in the second half of 2022, primarily relate to medical lien claim exposures which have converted to damages and contractual claims directly against private US medical providers ("contractual claims"). These contractual claims are subject to various legal processes, which are currently at various stages of pursuit and enforcement. The vast majority of these impaired claims are litigation cases within the EFI Book, and to a lesser extent Michigan contractual claims in both the EFI and PFG Books. The range of potential recoveries from these claims, is very broad and difficult to accurately estimate based on the latest available and verifiable information.

The net asset deficiency of LAW increased from c.US$10 million as at 30 June 2022 to c.US$35 million as at 31 December 2022 (an increase of c.$25 million).

While we have heavily impaired assets for accounting purposes, as at 31 December 2022, it does not change the Company's focus and objectives of maximising value recovered from these claims. Furthermore, secured lenders are considering providing further support to the Company to ensure that value of these claims is maximised.

As detailed in Note 13 (Borrowings) to the FY2022 Accounts, the Company has agreed various finance facility support measures with PFG and EFI which currently expire at the end of March 2023. We are also in discussions with key SAF Lenders regarding financial covenant breaches as at 31 December 2022, which will be formally reported along with the Audited Annual Report for 2023 when completed at the end of March 2023.

Ongoing support from financial creditors beyond the end of March 2023 is uncertain. Any further support provided is likely to be impacted heavily by progress made by the Company on executing the Updated Strategy. Accordingly, debts owed in respect of the PFG, EFI and SAF facilities have all been classified as 'current' liabilities as at 31 December 2022.

Updated Strategy

As indicated to the market in the Quarterly Activities Report for the third quarter of 2022, dated 31 October 2022 the strategic priorities of the Company are:

1. Continue to reduce costs and conserve cash resources
    - Average monthly OPEX levels of US$0.36 million in 4Q2022 represented a 25% reduction on 3Q2022 levels.
    - Staff reductions in January and February are expected to further reduce monthly OPEX levels to around US$200k to US$250k on average in coming months.

2. Advance Trident HG joint venture as the as main source of origination growth
    - The Supplier Service Agreement between Trident HG and the US's largest hospital management company is in agreed form with full execution expected in the next two weeks.
    - The process of signing up the first hospital system under an End User Agreement is expected to commence next week.

3. Refinance the PFG Facility
    - As detailed in our Quarterly Activities Report for the fourth quarter of 2022, dated 31 January 2023, the progress of the refinance process is slower than hoped and it is proving challenging.
    - We are currently focusing efforts on advancing interest received from a large US special situations investment fund to refinance the PFG debt.
    - We continue to keep PFG updated on progress of the refinancing.
    - PFG have agreed to provide an extension the Facility Modifications and further financial covenant support until 31 March 2023, as stated above.

If sufficient progress is made on the above priorities, the Company will explore the potential and options to restructure the EFI and SAF facilities. As part of any debt restructuring it is likely that most (if not all) of the SAF Debt would need to convert to equity and the EFI Facility exposure moved off balance sheet (detailed in note 13 to the FY2022 Accounts) in order to return the balance sheet to a net asset surplus thereby improving the ability to raise new capital to support Trident HG growth.

Management and Board changes

In order to further support the reduction of OPEX, Group CEO, Daniel Kleijn, has decided to resign as an executive as at 28 February 2023 with no further remuneration payable. The intention is that Daniel remains as a non-executive director.

LAW's chairman, Tim Storey, said: "Daniel has led the Company through a very difficult time and was the driving force behind Trident HG. We are grateful that he remains available to provide his guidance and input as a non-executive director."

Given Daniel's resignation as Group CEO, the following management changes will be made:

- Phil Smith will continue his roles as Group CFO and Company Secretary of LAW while assuming Daniel's CEO responsibilities so far as they relate to the parent entity, LAW and its Australian incorporated subsidiaries.
- Richard Cruz the current President and General Counsel of NHF is appointed as CEO of NHF.

The Directors of the Company have agreed not to receive Director Fees from 1 March 2023 until further notice to conserve cash resources.

David Wattel has decided to resign as non-executive director of the Company and some of its US-based subsidiaries as at 28 February 2023. David was the co-founder of NHF and is an entrepreneur and a founding member of personal injury law firm Wattel & York.

Chairman, Tim Storey said: "We thank David for his commitment to the Company and are excited to continue our relationship as he intends to work with Trident HG through Wattel & York."

Authorised by:

The Board of Directors

For investor enquiries:
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Chief Financial Officer
LawFinance Limited
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1. Company details

Name of entity:	LawFinance Limited
ABN:	72 088 749 008
Reporting period:	For the year ended 31 December 2022
Previous period:	For the year ended 31 December 2021
Presentation Currency	US Dollars ("$")

2. Results for announcement to the market

				US$'000
Revenues from ordinary activities - continuing operations	down	> 100%	to	(16,430)
Total comprehensive (loss) for the Group	up	> 100%	to	(29,873)
(Loss) from ordinary activities after tax attributable to the owners of LawFinance Limited	up	47.1%	to	(31,277)
(Loss) for the year attributable to the owners of LawFinance Limited	up	47.1%	to	(31,277)

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$29,873,000 (31 December 2021: US$342,000).

3. Net tangible assets

	31 Dec 2022 Cents	31 Dec 2021 Cents
Net tangible assets per ordinary security	(55.41)	(26.28)

The net tangible assets excludes right-of-use assets but includes 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.

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8. Details of associates and joint venture entities

The Group entered into a joint venture with Madaket Co., LLC and Hummingbird Financial, LLC on 30 March 2022 and named the company Trident Health Group, LLC. The purpose of the joint venture is to engage in the business of acquiring medical receivables from hospitals servicing and collecting those receivables and any other actions reasonably related thereto, including selling receivables to affiliates or third parties. There were minimal transactions to 31 December 2022.

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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).

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10. Audit qualification or review

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

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

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11. Attachments

Details of attachments (if any):

The Preliminary final report of LawFinance Limited for the year ended 31 December 2022 is attached.

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12. Signed

Authorised by the Board of Directors.

Signed ______________________________ Date: 28 February 2023

Tim Storey
Chairman
Sydney

LawFinance Limited

ABN 72 088 749 008

Preliminary final report - 31 December 2022

Contents

LawFinance Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2022

	Note	Consolidated 31 Dec 2022 US$'000	31 Dec 2021 US$'000
Revenue from continuing operations			
Net (loss) from medical lien funding	3	(17,017)	(3,079)
Interest income - letter of credit		444	-
Other revenue	4	143	1,392
Total revenue		(16,430)	(1,687)
Non-supplier related cost of sales		(8)	(57)
Gross (loss)		(16,438)	(1,744)
Interest income		8	4
Expenses			
Employee benefits expense	5	(3,909)	(4,196)
Depreciation and amortisation expense	5	(144)	(349)
Impairment of assets	5	-	(75)
Administration and other expenses	5	(1,952)	(4,135)
Finance costs	5	(8,642)	(11,474)
(Loss) before income tax benefit from continuing operations		(31,077)	(21,969)
Income tax benefit		-	1,528
(Loss) after income tax benefit from continuing operations		(31,077)	(20,441)
(Loss) after income tax expense from discontinued operations		-	(788)
(Loss) after income tax benefit for the year		(31,077)	(21,229)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		1,204	1,977
Restructuring gain on debt to equity conversion	16	-	18,910
Other comprehensive income for the year, net of tax		1,204	20,887
Total comprehensive (loss) for the year		(29,873)	(342)
(Loss) for the year is attributable to:			
Non-controlling interest		200	27
Owners of LawFinance Limited		(31,277)	(21,256)
		(31,077)	(21,229)
Total comprehensive (loss) for the year is attributable to:			
Continuing operations		200	27
Discontinued operations		-	-
Non-controlling interest		200	27
Continuing operations		(30,073)	419
Discontinued operations		-	(788)
Owners of LawFinance Limited		(30,073)	(369)
		(29,873)	(342)

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 profit or loss and other comprehensive income
For the year ended 31 December 2022

	Note	31 Dec 2022 Cents	31 Dec 2021 Cents
Earnings per share for loss from continuing operations attributable to the owners of LawFinance Limited			
Basic loss per share	6	(55.56)	(70.59)
Diluted loss per share	6	(55.56)	(70.59)
Earnings per share for loss from discontinued operations attributable to the owners of LawFinance Limited			
Basic loss per share	6	-	(2.72)
Diluted loss per share	6	-	(2.72)
Earnings per share for loss attributable to the owners of LawFinance Limited			
Basic loss per share	6	(55.56)	(73.31)
Diluted loss per share	6	(55.56)	(73.31)

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

LawFinance Limited
Consolidated statement of financial position
As at 31 December 2022

	Note	Consolidated 31 Dec 2022 US$'000	Consolidated 31 Dec 2021 US$'000
Assets			
Current assets			
Cash and cash equivalents	7	1,460	5,101
Financial assets at amortised cost - USA	8	8,794	12,372
Other receivables	9	133	979
Prepayments		217	293
Total current assets		10,604	18,745
Non-current assets			
Financial assets at amortised cost - USA	8	9,072	29,070
Other receivables	9	9	15
Property, plant and equipment	10	64	106
Right-of-use assets	11	138	235
Total non-current assets		9,283	29,426
Total assets		19,887	48,171
Liabilities			
Current liabilities			
Trade and other payables	12	1,484	2,068
Borrowings	13	53,249	38,323
Lease liabilities		41	100
Employee benefits		102	177
Total current liabilities		54,876	40,668
Non-current liabilities			
Borrowings	13	141	17,818
Lease liabilities		124	164
Total non-current liabilities		265	17,982
Total liabilities		55,141	58,650
Net liabilities		(35,254)	(10,479)
Equity			
Issued capital	14	102,671	97,626
Capitalising converting notes	15	14,460	14,832
Reserves	16	28,025	26,344
Accumulated losses		(180,093)	(148,816)
Deficiency attributable to the owners of LawFinance Limited		(34,937)	(10,014)
Non-controlling interest		(317)	(465)
Total deficiency		(35,254)	(10,479)

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 year ended 31 December 2022

Consolidated	Issued capital US$'000	Capitalising converting notes US$'000	Reserves US$'000	Accumulated losses US$'000	Non-controlling interest US$'000	Total deficiency US$'000
Balance at 1 January 2021	61,310	13,933	5,220	(127,560)	(462)	(47,559)
Profit/(loss) after income tax benefit for the year	-	-	-	(21,256)	27	(21,229)
Other comprehensive income for the year, net of tax	-	-	20,887	-	-	20,887
Total comprehensive (loss)/income for the year	-	-	20,887	(21,256)	27	(342)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs (note 14)	36,316	-	-	-	-	36,316
Share-based payments	-	-	237	-	-	237
Distribution to non-controlling interest	-	-	-	-	(30)	(30)
Capitalising converting notes (note 15)	-	899	-	-	-	899
Balance at 31 December 2021	97,626	14,832	26,344	(148,816)	(465)	(10,479)

Consolidated	Issued capital US$'000	Capitalising converting notes US$'000	Reserves US$'000	Accumulated losses US$'000	Non-controlling interest US$'000	Total deficiency US$'000
Balance at 1 January 2022	97,626	14,832	26,344	(148,816)	(465)	(10,479)
Profit/(loss) after income tax expense for the year	-	-	-	(31,277)	200	(31,077)
Other comprehensive income for the year, net of tax	-	-	1,204	-	-	1,204
Total comprehensive (loss)/income for the year	-	-	1,204	(31,277)	200	(29,873)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs (note 14)	5,045	-	-	-	-	5,045
Share-based payments	-	-	477	-	-	477
Distribution to non-controlling interest	-	-	-	-	(52)	(52)
Capitalising converting notes (note 15)	-	(372)	-	-	-	(372)
Balance at 31 December 2022	102,671	14,460	28,025	(180,093)	(317)	(35,254)

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 year ended 31 December 2022

	Note	Consolidated 31 Dec 2022 US$'000	Consolidated 31 Dec 2021 US$'000
Cash flows from operating activities			
Cash collections from customers (inclusive of GST)		16,521	15,156
Payments for disbursement reports and medical liens		(9,583)	(3,577)
Payments to suppliers and employees		(6,164)	(10,662)
Net repayment of working capital facilities - disbursement funding division		-	(1,547)
Net repayment of working capital facilities - medical lien funding division		(3,224)	(4,605)
Transfer of redraw account balance to PFG controlled account - medical lien funding		-	(2,206)
Interest and fees related to working capital facilities		(5,152)	(4,623)
Interest received		227	3
Interest paid		-	(5)
Net cash (outflow) from operating activities		(7,375)	(12,066)
Cash flows from investing activities			
Payments for property, plant and equipment		(5)	(154)
Payments for litigation case funding (net of co-funders contributions)		-	(200)
Net proceeds from term deposits		693	145
Cash balance transfer associated with the sale of disbursement funding and litigation case funding business		-	(194)
Other - insurance commission		82	-
Net cash inflow/(outflow) from investing activities		770	(403)
Cash flows from financing activities			
Proceeds from issue of shares		4,502	13,321
Share issue transaction costs		(523)	(584)
Proceeds from borrowings - corporate		71	2,914
Repayment of borrowings - other		(1,002)	(1,290)
Repayment of lease liabilities		(36)	(263)
Interest and fees related to loans and borrowings		(17)	(1,217)
Net cash inflow from financing activities		2,995	12,881
Net (decrease)/increase in cash and cash equivalents		(3,610)	412
Cash and cash equivalents at the beginning of the financial year		5,101	5,197
Effects of exchange rate changes on cash and cash equivalents		(31)	(508)
Cash and cash equivalents at the end of the financial year	7	1,460	5,101

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 (ASX: LAW) 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 335
49-51 Queens Road
Five Dock NSW 2046

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 28 February 2023.

Going Concern

The consolidated financial statements of the Group have been prepared on a going concern basis, which indicates continuity of business activities and the realisation of assets and settlement of liabilities in the normal course of business. In making their assessment the Directors have considered factors including those detailed below.

Per these Preliminary Accounts, the Group made a loss after tax of $31,077,000 for the 2022 year (2021: $21,229,000). The after-tax loss for 2022 also included the impacts of the financial assets being recorded at amortised cost (NHF’s PFG and EFI Books of receivables) and recognised through the profit and loss. The amortisation of these assets was calculated based on the prior six months collection history, and management’s assessment of the potential outcomes of legal and recovery actions being pursued directly against medical service providers who originated the medical lien claims which NHF acquired or funded.

As at 31 December 2022, the Group had a net asset deficiency of $35,254,000 (31 December 2021: net asset deficiency of $10,479,000). The Group had formally agreed with Efficient Frontier Investing (EFI), one of its lenders, for a Covenant Testing Holiday with the next test date on 31 March 2023. In the absence of further covenant support or waiver (conditional or otherwise) from EFI, it is likely that the borrower, SPV III will breach the terms of the Loan to Value Ratio (LVR) covenant when next tested on 31 March 2023. Discussions have commenced with EFI regarding LVR estimates in respect of the LVR financial covenant, however the outcome of these discussions and any further support from EFI is unknown. Please refer to note 13 for further details regarding the EFI facility and the risks this poses to the Group.

The Group’s one remaining and only corporate debt facility as at 31 December 2022 is the Syndicated Acquisition Facility (“SAF”) which had outstanding principal of US$18,308,000 (A$26,903,000). As at 31 December 2022, the Group was in breach of the Asset Coverage financial covenants. The Group has informally communicated this position to the two largest SAF Lenders and will formally report on Covenant tests by the end of March 2023 following the finalisation of the Audited Annual Report. During March 2023 we intend to formally request a standstill agreement from the SAF Lenders with the aim of the SAF Lenders agreeing not to take enforcement action while options are fully considered and a consensual debt restructuring contemplated. Refer to note 13.

Partners For Growth (“PFG”) executed a formal facility amendment in November 2022 (“Facility Modification”) confirming that all collections from the PFG Book would be applied to repay debt and undrawn facility limits were cancelled. As part of the Facility Modifications PFG agreed to amend financial covenants, designed to provide the Group with a stable platform to the end of February 2023 (subsequently, extended to 31 March 2023) in order to provide the Group time, to focus on the Group’s strategic priorities including refinancing the PFG loan. Refer to note 13.

Note 1. General information (continued)

As at 31 December 2022, the Group held $1,460,000 (31 December 2021: $5,101,000) in cash. Of this amount $1,056,000 (31 December 2021: $4,319,000) was unrestricted and available to fund operations and investment in the business. Under the terms of the Facility Modification with PFG, the Group must maintain at least $250,000 cash in the NHF operating bank account to avoid a default under the terms of the Facility Modification. If any breach of this requirement or the other modified Financial Covenants is not cured or waived within 5 business days of the breach then it constitutes a default which would allow PFG to exercise its rights and remedies under the facility.

In order to achieve the required minimum cash level to the end of March 2023, the Company's largest shareholder has provided $350,000 funding to PFG which will be on-lent to NHF in early March 2023, under the terms of the PFG facility, in order to fund operating expenses.

Additional cash funding is expected to be required to fund Group operating expenses and growth beyond the end of March 2023. The quantum of such funding required will be heavily dependent on the timing and terms of any PFG facility debt refinance and EFI and SAF facility restructurings, if achieved. As detailed in the Group's Quarterly Activities Report for the 4th quarter of 2022, dated 31 January 2023, LawFinance Limited is exploring a number of options to refinance the PFG facility, but is now working closely with LAW's largest shareholder regarding a funding proposal involving a large US-based special situations credit fund with experience funding medical liens. The proposal envisages that other parties (primarily LAWs largest shareholder and Capitalising Convertible Note ("CCN") holders would provide junior secured debt funding under this structure). This structure being 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.$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 March 2023.

Ongoing support from financial creditors (including further funding) beyond the end of March 2023 is uncertain. Any further support provided is likely to be impacted heavily by progress made by the Group on executing its Updated Strategic Priorities (as defined below). As indicated to the market in the Quarterly Activities Report for the 3rd quarter of 2022, dated 31 October 2022 the priorities of the Group are:

1. Continue to reduce costs and conserve cash resources
2. Advance Trident Health Group Joint venture as the main source of origination growth
3. Refinance the PFG Facility

If sufficient progress is made on the above priorities the Group will explore a 4th priority, being the potential and options to restructure the balance sheet and raise further capital. As part of any debt restructuring, it is likely that most (if not all) of the SAF Debt would need to convert to equity and the EFI Facility exposure moved off balance sheet in order to return the balance sheet to a net asset surplus thereby improving the ability to raise new capital to support Trident Health Group (collectively the 4 strategic priorities are referred to as the "Updated Strategic priorities").

The Directors consider that if sufficient progress is made on the first 3 Updated Strategic Priorities, its financial creditors will provide the required support to restructure the Group's balance sheet which, would enable the Group to raise sufficient capital to fund growth and capital deployment profitably through the Trident Health Group joint venture and create value for shareholders.

At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the preliminary financial report at 31 December 2022. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classifications of liabilities that might be necessary should the Group not continue as a going concern.

There is however material uncertainty related to events or conditions that may cast doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in this Financial Report.

Note 2. Operating segments

Identification of reportable operating segments
The Group was organised into four operating segments: (i) JustKapital Finance (comprising the Australian disbursement funding business) and Litigation funding – which are both discontinued operations, (ii) short-term funding ('STL'), (iii) National Health Finance, comprising the US medical lien funding business and (iv) all other operations and head office costs.

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

Operating segment information

Consolidated - 31 Dec 2022	JustKapital Finance and Litigation funding* US$'000	STL* US$'000	National Health Finance US$'000	Other US$'000	Total US$'000
Revenue					
Net (loss) from disbursement funding/medical lien funding	-	-	(17,017)	-	(17,017)
Other revenue	-	-	508	79	587
	-	-	(16,509)	79	(16,430)
Other income	-	-	-	-	-
Total revenue	-	-	(16,509)	79	(16,430)
Segment result	-	-	(20,637)	(825)	(21,462)
Depreciation and amortisation	-	-	(144)	-	(144)
Finance costs	-	-	(6,043)	(2,599)	(8,642)
(Loss) before income tax expense	-	-	(26,824)	(3,424)	(30,248)
Income tax expense					-
(Loss) after income tax expense					(30,248)
Assets					
Segment assets	-	-	19,698	189	19,887
Total assets					19,887
Liabilities					
Segment liabilities	-	-	36,641	18,500	55,141
Total liabilities					55,141

* Discontinued operations

Note 2. Operating segments (continued)

Consolidated - 31 Dec 2021	JustKapital Finance and Litigation funding* US$'000	STL US$'000	National Health Finance US$'000	Other US$'000	Total US$'000
Revenue					
Net (loss)/income from disbursement funding/medical lien funding	2,033	-	(3,079)	-	(1,046)
Other revenue	7	10	1,360	22	1,399
	2,040	10	(1,719)	22	353
Other income	-	-	-	-	-
Total revenue	2,040	10	(1,719)	22	353
Segment result	1,435	(66)	(6,118)	(3,962)	(8,711)
Depreciation and amortisation	(52)	-	(242)	(107)	(401)
Finance costs	(2,171)	(6)	(7,293)	(4,175)	(13,645)
(Loss) before income tax benefit	(788)	(72)	(13,653)	(8,244)	(22,757)
Income tax benefit					1,528
(Loss) after income tax benefit					(21,229)
Assets					
Segment assets	-	-	44,228	3,943	48,171
Total assets					48,171
Liabilities					
Segment liabilities	-	-	39,623	19,027	58,650
Total liabilities					58,650

* Discontinued operations

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	
	31 Dec 2022 US$'000	31 Dec 2021 US$'000	31 Dec 2022 US$'000	31 Dec 2021 US$'000
Australia	-	2,033	-	-
United States	(17,017)	(3,079)	211	356
	(17,017)	(1,046)	211	356

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 3. Net loss from disbursement funding/medical lien funding

	Consolidated 31 Dec 2022 US$'000	Consolidated 31 Dec 2021 US$'000
From continuing operations		
Medical lien funding - USA:		
Interest income at amortised cost	6,043	6,806
Net impairment losses on financial assets at amortised cost	(23,097)	(11,313)
Net settlement gains on financial assets at amortised cost	37	1,428
	(17,017)	(3,079)

Note 4. Other revenue

	Consolidated 31 Dec 2022 US$'000	31 Dec 2021 US$'000
From continuing operations		
Interest received – short-term lending	-	10
Brokerage commission received – insurance	79	-
Rental income	64	66
Government grants and subsidies	-	1,246
Non-case related settlements - NHF	-	70
Other revenue	143	1,392

Government grants and subsidies
In the prior year, the Group received:
(a) payments from the Australian Government amounting $22,000 as part of its 'Boosting Cash Flow for Employers' scheme in response to the COVID-19 pandemic. These non-tax amounts were recognised as government grants and recognised as other revenue;
(b) a $10,000 grant from the City of Chandler;
(c) debt forgiveness of $1,113,000 inclusive of $9,000 accrued interest from the US Small Business Administration for its first and second Paycheck Protection Program Loan (‘PPP Loan’); and
(d) an Employee Retention Credit for $101,000 was also received from the US Department of the Treasury under the CARES Act to provide relief in relation to the COVID-19 pandemic.

Note 5. Expenses

	Consolidated 31 Dec 2022 US$'000	Consolidated 31 Dec 2021 US$'000
(Loss) before income tax from continuing operations includes the following specific expenses:		
Employee benefits expense		
Defined contribution superannuation expense	36	148
Share-based payments expense	260	184
Employee benefits expense excluding superannuation	3,613	3,864
	3,909	4,196
Depreciation and amortisation expense		
Depreciation - property, plant and equipment	47	100
Depreciation - right-of-use assets	97	239
Amortisation - other intangibles	-	10
	144	349
Impairment of assets		
Impairment of short-term loans	-	75
Administration and other expenses		
ASIC, ASX and share registry fees	38	46
Insurance	218	220
Legal and professional fees*	1,504	3,082
Rent and office costs	108	(51)
Travel and accommodation	74	265
Low-value assets lease payments	-	54
Other	10	519
	1,952	4,135
Finance costs		
Interest expense and line fees	8,626	11,440
Interest - right-of-use assets	16	34
	8,642	11,474

* The 2021 amount includes legal and professional fees of $1,363,000 associated with addressing defaults under various facilities including the Syndicated acquisition facility and the restructuring and recapitalisation process undertaken in 2021.

Note 6. Earnings per share

	Consolidated 31 Dec 2022 US$'000	Consolidated 31 Dec 2021 US$'000
Earnings per share for loss from continuing operations		
(Loss) after income tax	(31,077)	(20,441)
Non-controlling interest	(200)	(27)
(Loss) after income tax attributable to the owners of LawFinance Limited	(31,277)	(20,468)

Note 6. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	56,294,576	28,995,748
Weighted average number of ordinary shares used in calculating diluted earnings per share	56,294,576	28,995,748

	Cents	Cents
Basic loss per share	(55.56)	(70.59)
Diluted loss per share	(55.56)	(70.59)

	Consolidated	
	31 Dec 2022 US$'000	31 Dec 2021 US$'000
Earnings per share for loss from discontinued operations		
(Loss) after income tax	-	(788)
Non-controlling interest	-	-
(Loss) after income tax attributable to the owners of LawFinance Limited	-	(788)

	Cents	Cents
Basic loss per share	-	(2.72)
Diluted loss per share	-	(2.72)

	Consolidated	
	31 Dec 2022 US$'000	31 Dec 2021 US$'000
Earnings per share for loss		
(Loss) after income tax	(31,077)	(21,229)
Non-controlling interest	(200)	(27)
(Loss) after income tax attributable to the owners of LawFinance Limited	(31,277)	(21,256)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	56,294,576	28,995,748
Weighted average number of ordinary shares used in calculating diluted earnings per share	56,294,576	28,995,748

	Cents	Cents
Basic loss per share	(55.56)	(73.31)
Diluted loss per share	(55.56)	(73.31)

As at 31 December 2022 and 2021, there were no options on issue, convertible bonds and warrants on ordinary shares excluded from the calculation of the weighted average number of ordinary shares used in calculating diluted earnings per share due to being anti-dilutive in nature.

Note 7. Cash and cash equivalents

	Consolidated	
	31 Dec 2022 US$'000	31 Dec 2021 US$'000
Current assets		
Cash at bank*	1,460	5,101

* Of the total cash at bank, $404,000 (2021: $782,000) is considered unavailable for operations as it is held pending distribution to asset-backed lenders. Refer note 13(i) Efficient Frontier Investing and note 13(iii) Partners for Growth ('PFG').

Note 8. Financial assets at amortised cost - USA

	Consolidated	
	31 Dec 2022 US$'000	31 Dec 2021 US$'000
Current assets		
Loan receivables - medical lien funding - USA (gross)	62,656	44,292
Allowance for expected credit losses	(54,518)	(31,920)
Loan receivables - letter of credit	656	-
	8,794	12,372
Non-current assets		
Loan receivables - medical lien funding - USA (gross)	64,194	104,072
Allowance for expected credit losses	(55,856)	(75,002)
Loan receivables - letter of credit	734	-
	9,072	29,070
	17,866	41,442

The loan receivables - letter of credit are measured at the amount recognised at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and any loss allowance. Interest income is calculated using the effective interest method and is recognised in profit or loss. Changes in fair value are recognised in profit or loss when the asset is derecognised or reclassified.

Medical lien funding receivables are considered purchased credit impaired assets under Australian 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 on historical loss rates and realisation rates specific to the state of origination.

As part of the Group's year end asset review of claim within the portfolio, the Group identified receivables considered to be of 'higher risk' of non-collection. Claims were identified as identified as higher risk due to a number of factors including age and lack of reliable information to support recoverability of claims and also where the credit risk has effectively shifted from underlying medical lien claims to being against the US medical provider that originated the claims which NHF acquired or funded. These higher risk claims were assessed by management based on a number of factors including available information regarding the debtors' financial positions, nature of claim and progress of legal and enforcement actions (where applicable). Based on these estimates, management raised specific allowances for expected credit losses reflecting the uncertainties relating to the realisable value of claims and the broad range of potential outcomes.

Note 9. Other receivables

	Consolidated 31 Dec 2022 US$'000	Consolidated 31 Dec 2021 US$'000
Current assets		
Other receivables*	133	979
Non-current assets		
Other receivables**	9	15
	142	994

* Other receivables (current) as at 31 December 2022 includes:

(i) term deposits of $nil (2021: $725,000). The term deposit is held as part of a standstill agreement with Assetsecure and is able to be called on 1 July 2022 (see note 13). This has been subsequently paid and settled in August 2022.

(ii) Mesh receivables of $126,000 (2021: $246,000). The associated Mesh liabilities were $nil as at 31 December 2022 and 2021.

** Other receivables (non-current) as at 31 December 2022 includes rental bond of $9,000 (2021: $15,000).

Note 10. Property, plant and equipment

	Consolidated 31 Dec 2022 US$'000	Consolidated 31 Dec 2021 US$'000
Non-current assets		
Plant and equipment - at cost	374	369
Less: Accumulated depreciation	(310)	(263)
	64	106

Reconciliations

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

Consolidated	Plant and equipment US$'000
Balance at 1 January 2021	91
Additions	117
Exchange differences	(2)
Depreciation expense	(100)
Balance at 31 December 2021	106
Additions	5
Depreciation expense	(47)
Balance at 31 December 2022	64

Note 11. Right-of-use assets

	Consolidated 31 Dec 2022 US$'000	Consolidated 31 Dec 2021 US$'000
Non-current assets		
Land and buildings - right-of-use	549	549
Less: Accumulated depreciation	(411)	(314)
	138	235

Additions to the right-of-use assets during the period were $nil.

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

Note 12. Trade and other payables

	Consolidated 31 Dec 2022 US$'000	Consolidated 31 Dec 2021 US$'000
Current liabilities		
Trade and other payables	407	692
Accruals and other liabilities	1,077	1,376
	1,484	2,068

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

Note 13. Borrowings

	Consolidated 31 Dec 2022 US$'000	Consolidated 31 Dec 2021 US$'000
Current liabilities		
Efficient Frontier Investing (i)	24,072	23,327
Syndicated acquisition facility (ii)	18,308	-
Partners for Growth ('PFG') (iii)	10,796	13,935
Assetsecure Pty Limited loan (iv)	-	1,027
Convertible Promissory Note (v)	3	16
Economic Injury Disaster Relief loan (vi)	4	9
Insurance financing - Australia (vii)	62	-
Credit cards	4	9
	53,249	38,323
Non-current liabilities		
Syndicated acquisition facility (ii)	-	17,681
Economic Injury Disaster Relief loan (vi)	141	137
	141	17,818
	53,390	56,141

Note 13. Borrowings (continued)

(i) Efficient Frontier Investing
On 4 December 2020, a subsidiary of the Company (NHF SPV III, LLC) ('SPV III') entered into a facility agreement for $25,550,000 with (amongst others) EFI Cayman SPC for and on behalf of NHF SPV III Segregated Portfolio ('EFI'), acting as agent for a syndicate of financiers. The principal outstanding (including capitalised interest) under this facility increased to $24,072,000 as at 31 December 2022 (31 December 2021: $24,317,000). The carrying value of the loan in accordance with AASB 9 Financial Instruments was $24,072,000 at 31 December 2022 (31 December 2021: $23,327,000).

The facility was used to (amongst other things) refinance amounts owing to Atalaya Special Opportunities Fund VI LP and Paradise Diversified Holdings Limited Partnership and has a three-year term expiring on 4 December 2023, with interest (including management fee) on the facility accruing at 12.50% per annum (31 December 2021: 12.50%).

Under the terms of the agreement, the facility is to be repaid by the borrower (SPV III) with proceeds received from the assets of SPV III (which acquired the rights to certain US medical lien receivables). As at 31 December 2022, for accounting purposes, the discounted future cash flow value of such receivables (book value) is $2,859,000 which is equivalent to c.12% of the outstanding loan (including capitalised interest). This valuation indicates that, on an accounting basis, there may be a shortfall of $21,213,000 (31 December 2021: shortfall of $1,438,000) which would be required to allow SPV III to repay the loan in full.

The majority of SPV III assets are now damages and contractual claims directly against private US medical providers, which have arisen in connection with the acquisition and funding of US medical lien receivables originated by US medical providers. These claims are subject to various legal processes, which are currently at various stages of pursuit and enforcement. The range of potential recoveries from these claims, is very broad and difficult to accurately estimate based on available and verifiable information. At the top end of this range, actual recoveries may be sufficient for the loan to be discharged in full, although the quantum and timing of actual recoveries remains uncertain at this time.

Despite this, management's current assessment is that the discounted estimated future cash flows of the assets of SPV III, as at 31 December 2022 is $8,896,000. This assessment does not take account (the possible impacts of) additional support that EFI is considering to provide to SPV III to assist it in maximising potential outcomes and realisations. However, given the challenges of accurately estimating the outcomes of these legal processes based on currently available information and the inherent uncertainty relating to legal enforcement of the claims, impairments to the estimated future cash flows were raised as at 31 December 2022. Following these additional impairments, the book value of SPV III's assets, for accounting purposes has been reduced to $2,859,000 as at 31 December 2022.

The facility is subject to two financial covenants being a loan to value ratio ('LVR') and a collection hurdle. EFI agreed to provide a financial covenant testing holiday from and including 31 May 2022 to and including 30 March 2023 ('Covenant Testing Holiday') with the next test date for these financial covenants being 31 March 2023.

The LVR is the ratio of the principal outstanding of the loan to the valuation of certain secured receivables owned by SPV III (the 'Claims'). Under the facility agreement the LVR must not on each monthly 'test date' exceed 77.5%. Maintaining compliance with this covenant is dependent on assumptions regarding future collections including the outcome of legal recovery (litigation) actions which are difficult to estimate in respect of both time and quantum.

At the end of the Covenant Testing Holiday on 31 March 2023, the LVR financial covenant will be tested. If SPV III is in breach of the LVR covenant at that time, EFI will have the right to retrospectively test the LVR covenant for each prior test date dating back to and including 31 May 2022, and declare an event of default for any prior LVR covenant breach, and (amongst other things) charge default interest under the terms of the facility agreement from such time (which is an additional 4% per annum whilst such default is continuing). In the absence of further covenant support or waiver (conditional or otherwise) from EFI, it is likely that SPV III will breach the terms of the LVR covenant on 31 March 2023. Discussions have commenced with EFI regarding LVR estimates in respect of the LVR financial covenant, however the outcome of these discussions and any further support from EFI is unknown. At this time, EFI have not indicated whether if the LVR covenant is not satisfied on 31 March 2023, they would issue a default notice for prior LVR breaches or charge default interest, and it should be noted that whilst the loan balances referred to above have not been calculated with interest charged at the default rate of 4% per annum whilst the relevant default subsists, it is possible that such amounts are required to be increased accordingly.

In January 2022, SPV III notified EFI that a Review Event occurred given it was unable to pay US$604,377 into the collections hurdle pre-payment account subject to EFI security, which resulted in a collection hurdle shortfall as at 31 December 2021 relating to the level of collections with respect to certain claims in the preceding 3 months. The obligation to pay the collection hurdle shortfall is an obligation of SPV III and management was of the view that it was not broadly in the interests of stakeholders to fund this payment from available cash resources of the Company, at the time (and subsequently), given that such payment would reduce cash available to fund operations of the Company.

Following a Review Event, EFI may notify SPV III requiring it to negotiate in good faith for a period of 30 days to agree on revised facility terms and if EFI and SPV III (acting reasonably) are unable to agree revised terms then EFI may provide notice requiring the repayment of the loan within 90 days from the date of such notice. To date EFI have not issued such notice to negotiate revised terms or advised what they may seek in any such negotiation. However, EFI and SPV III have worked and continue to work closely together to provide the platform to maximise recoveries from the Claims, which culminated in EFI agreeing to the Covenant Testing Holiday.

The loan is secured by a general security agreement over the assets of SPV III which holds the relevant claims receivables, which have a book value as at 31 December 2022 of $2,859,000 (31 December 2021: $22,879,000). The Company has also provided a limited guarantee in connection with the facility, however, this guarantee is only effective following the earlier of i) the date a liquidator is appointed to the Company and ii) 4 November 2023 (and is otherwise subject to the terms of a subordination deed dated 4 December 2020 between the Company, EFI and the SAF Lenders ('Subordination Agreement')). The Company’s liability to pay any amount under the guarantee is limited to the lower of:

(a) $28,687,500; and
(b) an amount equal to the principal amount outstanding in respect of the loan (including any capitalised interest) at the relevant date plus the amount of interest that would accrue on such principal amount outstanding until the final day of the next calendar month.

The receivables held within SPV III were assessed under the derecognition requirements in AASB 9 Financial Instruments, with the receivables continuing to be recognised at amortised cost by the Company in their entirety.

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 earlier of (i) the date that the debt outstanding to the SAF Lenders is repaid in full and (ii) the date that is 10 business days after the date 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).

As the EFI facility is an amortising loan, under AASB 9 Financial Instruments, it is required to be split between current and non-current based on forecast cash repayments of the facility. Given the Review Event that arose due to SPV III breaching the collection hurdle, the expiry of the Covenant Testing Holiday on 30 March 2023 and expiry of the loan term on 4 December 2023 it has been recorded as current as at 31 December 2021 and 31 December 2022.

(ii) Syndicated acquisition facility ('SAF')
The Syndicated acquisition facility was provided by various leading Australian institutions and family offices. The facility was restructured as part of the Company’s debt restructure approved by shareholders at the Company’s Annual General Meeting on 25 May 2021 ('2021 Debt Restructure').

As part of the 2021 Debt Restructure a portion of the SAF debt was converted to equity in the Company and two remaining tranches of debt were formed. The remaining SAF facility debt was $13,750,000 (A$20,000,000), which is now referred to as Tranche 1. A new loan amount of $2,630,000 (A$3,825,080) was also made, which is referred to as Tranche 2.

Tranche 1 has an interest rate of 9.50% per annum and is due for repayment on 28 May 2026. Tranche 2 has an interest rate of 9.50% per annum and is due for repayment on 28 May 2025. The Group has the ability to capitalise interest payments on both tranches until 28 May 2024. During an election to capitalise interest, the amount is taken to be added to the principal outstanding under the relevant loan.

Tranche 3 of $68,749 (A$100,000) was fully drawn in May 2022 on largely the same terms as Tranche 1 and Tranche 2. Tranche 3 has an interest rate of 9.50% per annum and is due for repayment on 28 May 2027. This repayment date may at the Company’s discretion if there is no subsisting default, be extended by a period of up to two additional years, subject to the interest rate for Tranche 3 increasing to 10.5% per annum for the balance of the extended term. The Group may capitalise interest payments whilst interest is being capitalised on Tranche 1 and Tranche 2. The capitalised interest is added to the principal outstanding under the relevant loan.

Note 13. Borrowings (continued)

The Group elected to capitalise the quarterly interest on all 3 SAF Tranches for 2022, of $1,599,000 (A$2,408,000). As at 31 December 2022, the total outstanding debt under the three SAF Tranches, inclusive of capitalised interest, totalled $18,308,000 (A$26,903,000) (31 December 2021: $17,681,000 (A$24,396,000)).

The loan is secured over certain assets of the Group excluding the assets of certain special purpose vehicles such as SPV III and SPV IV.

The first financial covenant testing date under the restructured SAF is 31 December 2022, and covenants will be formally reported to the SAF upon completing the audit report (by end of March 2023). However, based on the current financials set out in this preliminary report the Company would as at 31 December 2022 breach the Asset Coverage Financial Covenant. We have communicated this position to the two largest SAF Lenders and will be commencing discussions aimed at formalising a standstill agreement over the coming months, with the aim of the SAF Lenders agreeing not to take enforcement action while options are fully considered and a consensual debt restructuring contemplated.

Given that the outcome of upcoming discussions with the SAF Lenders regarding a formal standstill agreement following the expected breach of covenants as at 31 December 2022, the loan balance has been recorded as current as at 31 December 2022.

(iii) Partners for Growth ('PFG')
The loan facility of $30,000,000 (31 December 2021: $30,000,000) was established on 14 April 2021 to fund the US medical lien funding business. The Borrowers are NHF SPV IV, LLC ('SPV IV') and National Health Finance DM, LLC ('DM') (SPV IV and DM are together, 'NHF'). By agreement in November 2022, the undrawn portion of the facility was cancelled and all collections from the PFG Book since that agreement are being applied to reduce the PFG loan (facility is in amortisation).

Interest is payable under the drawn down facility at 11.25% per annum (31 December 2021: 11.25%) and the line fee payable on the relevant facility limit is 0.5% (31 December 2021: 0.5%).

The drawn loan amount of $10,847,000 as at 31 December 2022 (31 December 2021: $16,140,000) comprises of the principal amount of $10,826,000 (31 December 2021: $15,962,000) and accrued interest and legal fees of $21,000 (31 December 2021: $177,000).

The loan is secured by a first ranking priority lien over all the assets of SPV IV and DM, including also share security over SPV IV and DM, lockbox agreements and deposit account control agreements.

The facility is subject to several covenants. A breach of a covenant may require the Group to (amongst other things) repay the loan earlier.

In January 2022, PFG agreed to waive covenant breaches which occurred as at 31 December 2021 subject to the satisfaction of certain conditions by the Company and NHF, which ultimately required the facility to be amended. Upon completion of the Capital Raise announced on 5 May 2022, PFG confirmed that all subsisting covenant breaches were waived. In August 2022, NHF executed a formal facility amendment with PFG, confirming the waiver of all Covenant breaches during the first half of the year and documented amended facility terms, including financial covenants. This agreement also provided specific clarity on the processes and procedures associated with the Letters of Credit funding, which was not envisaged at the time the facility was entered into.

As of 30 September 2022, the Company was in breach of the PFG Liquidity Covenant which requires NHF (book servicer entity) to maintain US$1 million of unrestricted cash in its operating bank account at all times. Following this breach, a facility modification agreement was executed with PFG as announced on 16 November 2022 (“Facility Modification”). The Facility Modification represented a collaborative approach between PFG and the Company, whereby PFG provided the Company support to create a stable platform to focus on advancing strategic priorities including the refinance of the PFG loan.

As part of the Facility Modification, the Company and PFG agreed:

- The release of US$1,000,000 from the facility to the Company.
- A waiver of existing defaults and reduced triggers for certain financial covenants until 1 March 2023.
- Ability to refinance early without penalty.
- The issuance of warrants to PFG on a successful refinancing of the PFG facility.
- Cancellation of the undrawn facility amount.
- All collections will go towards a reduction of the PFG facility and a reduction of interest in line with the drawn amount.

As at 31 December 2022, NHF was compliant with the terms of the PFG Loan, taking into account the Facility Modification and waivers obtained for breaches of specific operational covenants. The outstanding loan equated to a blended advance rate of 80% of eligible claims and loans.

However, as detailed in our Quarterly Report for the 4th quarter of 2022, dated 31 January 2023, the progress of the refinance process is slower than hoped and it is proving challenging. We continue to keep PFG updated on progress of the refinancing. PFG have agreed to provide an extension the Facility Modifications and further financial covenant support until 31 March 2023, conditional upon NHF maintaining at least $250,000 of unrestricted cash in its operating bank account at all times.

In order to achieve this required minimum cash level to the end of March 2023, the Company's largest shareholder has provided $350,000 funding to PFG which will be on-lent to NHF under the terms of the PFG facility, to fund operating expenses. The intent of this interim funding is to allow more time for refinance discussions to be progressed. It is currently uncertain whether a refinance can be completed by the end of March 2023 nor i) whether further interim funding support can be obtained if required or ii) whether PFG would agree to any further extensions of Facility Modifications beyond 31 March 2023.

Pursuant to the Facility Modification, covenant breaches that are not cured or waived by PFG within 5 business days of their occurrence shall constitute and event of default, which would allow PFG to exercise its rights and remedies under the facility.

Given that the Facility Modification provides short term support to the Company, and the outcome of the current refinance process remains uncertain, the PFG loan amount has been recorded as current as at 31 December 2022.

(iv) Assetsecure Pty Limited ('Assetsecure')
This loan facility of $27,499,000 (A$40,000,000) was available to fund the Australian disbursement funding business operated by JustKapital Financing Pty Limited (JKF). Assetsecure appointed Receivers and Managers on 30 April 2021 to manage and realise the portfolio of receivables owned by JKF. Martin Walsh was appointed as Liquidator of JustKapital Financing Pty Ltd on 4 June 2021 and is currently winding up the affairs of the company in collaboration with the Receivers.

LAW and Assetsecure reached an agreement whereby LAW will pay c.US$63,000 (A$83,333) per month for 12 months to conclude on 30 May 2022 and $688,000 (A$1,000,000) by 1 July 2022 in full satisfaction of its potential corporate guarantee exposure relating to the Assetsecure receivables purchase agreement with JKF. A bank guarantee of A$1,000,000 was held as security and available to Assetsecure if it had not been repaid in full by 1 July 2022.

In August 2022, the cash backed bank guarantee of A$1,000,000 was released to Assetsecure in full and final settlement of the Company's obligations in respect of this facility.

(v) Convertible Promissory Note
Given that the Convertible Promissory Note was not converted to equity in the company by 10 September 2022 the cash settlement amount calculated pursuant to the formula prescribed in Note terms became payable in the amount of A$4,775.

(vi) Economic Injury Disaster Relief loan ('EIDL Loan')
The 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 (31 December 2021: 3.75%) is payable under this EIDL Loan. Repayments, including principal and interest, of $731 per month, commenced on 26 July 2021. The loan term is 30 years.

(vii) Insurance financing - Australia
On 17 August 2022, the Company entered into a loan premium funding arrangement for a loan amount of A$182,000. A monthly interest of 6.49% is payable under the arrangement. Repayments including principal and interest commenced on 17 August 2022. As at 31 December 2022, A$91,000 remains outstanding.

Financing arrangements
At the reporting date, the following lines of credit were available:

	Consolidated	
	31 Dec 2022 US$'000	31 Dec 2021 US$'000
Total facilities		
Efficient Frontier Investing (a)	24,072	25,550
Syndicated acquisition facility (b)	18,308	17,681
Partners for Growth (c)	10,796	30,000
	53,176	73,231
Used at the reporting date		
Efficient Frontier Investing (a)	24,072	23,327
Syndicated acquisition facility (b)	18,308	17,681
Partners for Growth (c)	10,796	15,963
	53,176	56,971
Unused at the reporting date		
Efficient Frontier Investing (a)	-	-
Syndicated acquisition facility (b)	-	-
Partners for Growth (c)	-	14,037
	-	14,037

(a) This facility does not have a redraw option.
(b) This facility includes capitalised interest.
(c) By agreement in November 2022, the undrawn portion of the facility was cancelled.

Note 14. Issued capital

	Consolidated			
	31 Dec 2022 Shares	31 Dec 2021 Shares	31 Dec 2022 US$'000	31 Dec 2021 US$'000
Ordinary shares - fully paid	63,867,656	40,770,740	102,671	97,626

Movements in ordinary share capital

Details	Date	Shares	US$'000
Balance	1 January 2021	1,170,230,045	61,310
Issue of shares - placement (i)	28 May 2021	1,273,258,048	12,835
Issue of shares - debt to equity restructure (ii)	28 May 2021	1,505,405,083	24,128
Issue of shares - share issue costs (iii)	28 May 2021	32,037,860	(322)
Issue of shares - remuneration shares (iv)	2 June 2021	2,500,000	-
Issue of shares - placement (v)	2 June 2021	2,700,000	51
Share consolidation (100:1) (vi)	9 June 2021	(3,946,269,507)	-
Issue of shares - share purchase plan (vii)	24 June 2021	909,211	629
Share issue costs		-	(1,005)
Balance	31 December 2021	40,770,740	97,626
Issue of shares - placement (viii)	11 April 2022	6,109,091	1,200
Issue of shares - entitlement offer (viii)	5 May 2022	7,213,579	1,418
Issue of shares - entitlement offer (viii)	6 May 2022	9,487,509	1,864
Issue of shares - entitlement offer (viii)	10 May 2022	100,000	20
Issue of shares - conversion of CCN (ix)	18 November 2022	186,737	1,232
Share issue costs		-	(689)
Balance	31 December 2022	63,867,656	102,671

(i) Issue price A$0.013 (US$0.0098) per share
(ii) Debt to equity conversion at A$0.021 (US$0.0158) per share (refer to note 16)
(iii) Capital raising fee paid in shares, issue price A$0.013 (US$0.0098) per share
(iv) Issue of shares to key management personnel for $nil consideration - Resolution 5 at Company's 2021 AGM
(v) Issue price of A$0.025 (US$0.0188) per share - Resolution 19 at Company's 2021 AGM
(vi) Consolidation of shares - 1 share for every 100 shares held at 9 June 2021 - Resolution 2 at Company's 2021 AGM
(vii) Issue price A$0.920 (US$0.6909) per share
(viii) Issue price A$0.275 (US$0.1965) per share
(ix) Conversion of capitalising converting notes ('CCN') at A$10 (US$6.7) per share (refer to note 15)

Ordinary shares
Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are 5,451,903 ordinary shares escrowed at 31 December 2022 (31 December 2021: 13,617,687).

Options
Options do not entitle the holder to participate in dividends or to vote at a meeting of the Company.

Convertible bonds
Convertible bonds do not entitle the holder to participate in dividends or to vote at a meeting of the Company.

Note 14. Issued capital (continued)

Warrants
Warrants issued on acquisition of NHF do not entitle the holder to participate in dividends or to vote at a meeting of the Company.

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

Note 15. Capitalising converting notes

	Consolidated	
	31 Dec 2022 US$'000	31 Dec 2021 US$'000
Capitalising converting notes	14,460	14,832

On 9 June 2020, the Company issued 188,972,861 Capitalising converting notes ('CCN') at a face value of A$0.10 per share (pre-share consolidation) 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 at 6% per annum and this interest is also convertible into ordinary shares, and not payable in cash. The CCN do not entitle the noteholders to participate in dividends or to vote at a meeting of the Company.

During the year ended 31 December 2022, 186,737 were converted to ordinary shares (2021: nil). Refer to note 14.

As announced on 3 January 2023 the Company is in discussions with the holders of the CCN, and that the Board has agreed to postpone the maturity date by three months to 31 March 2023 following receipt of a conditional and incomplete proposal to amend the terms of the CCNs in return for a staged capital injection of up to A$5 million ('CCN Proposal'). The existing CCNs would have converted on 31 December 2022 to 2,045,531 million shares based on an outstanding principal of A$20.5 million and a conversion price of A$10 per share. CCN holders have agreed that no interest will be capitalised in the period up to 31 March 2023. The CCN Proposal includes a staged injection of capital of up to A$5 million based on milestones in return for the extension of the maturity date and a reduction of the conversion price.

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 2,045,531, 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. From 31 December 2022 to 31 March 2023, no interest will be capitalised. During the year, $884,000 (A$1,273,000) of interest was transferred into equity (31 December 2021: $911,000 (A$1,217,000)).

Note 16. Reserves

	Consolidated	
	31 Dec 2022 US$'000	31 Dec 2021 US$'000
Foreign currency reserve	2,283	1,079
Share-based payments reserve	6,832	6,355
Restructuring reserve	18,910	18,910
	28,025	26,344

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

Note 16. Reserves (continued)

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Restructuring reserve
The reserve is used to recognise the gain on debt to equity conversion.

Movements in reserves
Movements in reserves during the current and previous financial period are set out below:

Consolidated	Foreign currency US$'000	Share-based payments US$'000	Restructuring US$'000	Total US$'000
Balance at 1 January 2021	(898)	6,118	-	5,220
Foreign currency translation	1,977	-	-	1,977
Restructuring gain on debt to equity conversion*	-	-	18,910	18,910
Share-based payments	-	237	-	237
Balance at 31 December 2021	1,079	6,355	18,910	26,344
Foreign currency translation	1,204	-	-	1,204
Share-based payments**	-	477	-	477
Balance at 31 December 2022	2,283	6,832	18,910	28,025

* While the Group's debt holders converted A$55 million of debt-to-equity at an average price of A$0.037 per ordinary share (on a pre-share consolidation basis), management has assessed the fair value of the shares at the time of the restructure at A$0.021 per ordinary share. This was the market price of the shares at the date of announcement to the market, in line with 'AASB 13 – Fair Value Measurement' and it is a Level 1 input. The subsequent gain on this conversion was accounted for in other comprehensive income.

** As part of the Capital Raise, Peloton were issued broker options of 3,000,000 with a strike price $0.55 expiring on 30 April 2024 and valued at A$303,000 ($218,000) using the Black Scholes model with a 75% volatility.

Note 17. Dividends

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