



ASX Announcement (ASX: LAW)

5 May 2023

Quarterly Activities Report – March 2023 Quarter

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

March 2023 quarter (1Q23) KPI and commentary:

- **Conditional Funding Transaction and CCN Extension**

On 31 March 2023, Lucerne LCF Pty Ltd (the **Funder**) entered into a conditional back-to-back agreement with Kenanga Investment Berhad (**Kenanga**), a Malaysian investment house, in order to provide it with sufficient funds to satisfy certain obligations to LAW under the Funding Transaction. LAW understands that the Funder is fully reliant on receiving the investment funds from Kenanga to have sufficient funds to satisfy its ongoing obligations to provide funding under the Funding Transaction agreement.

The remaining funding to be provided under the Funding Transaction is subject to a number of conditions, some of which are outside the control of LAW and there is no guarantee that those conditions will be satisfied or that any of this further funding will be obtained. If the conditions are not satisfied and the Funding Transaction does not proceed, LAW may no longer be able to continue as a going concern.

The Initial Funding of US\$250,000 was received in early April 2023, however payment of the second instalment of US\$250,000 due by 25 April 2023 (**Second Instalment**) has been delayed and has not yet been received. The Funder advised that the Second Instalment was delayed while the Company continued to work to procure unanimous support for the Funding Transaction (including the LAW Restructure) from all SAF Lenders. The Funder has subsequently advised that they have agreed in principle terms to acquire the debt of the only SAF Lender, who had indicated they were not supportive of the Funding Transaction (**Debt Trade**). The Funder continues to negotiate terms for a legally binding agreement for the Debt Trade with the SAF Lender. The Funder has therefore advised that they will transfer the Second Instalment by no later than Wednesday, 10 May 2023.

As announced on 28 April 2023, certain majority SAF Lenders agreed not to take any enforcement action in relation to their debt or exercise their rights as a consequence of the existing Events of Default under the Secured Term Syndicated Facility Agreement (SAF), during the period from 24 April 2023 to 28 April 2023 (**Informal Standstill**). This Informal Standstill period was subsequently extended by the majority SAF Lenders until 12 May 2023.

The purpose of this Informal Standstill period was initially to provide time to continue discussions with SAF Lenders that were not supportive of the LAW Restructure. Subsequently, it was extended to allow time and a stable platform to enable a formal implementation deed to be negotiated and agreed with all SAF Lenders (**SAF Implementation Deed**) and the Debt Trade to be properly documented.

This SAF Implementation Deed will, amongst other things formally document the terms of the agreed SAF restructure which forms a condition to the Funding Transaction and provide a formal SAF standstill period extending until the restructuring transaction is fully completed following shareholder approval for the Funding Transaction. The Company understands that the majority SAF Lenders intend to extend the current Informal Standstill on a weekly rolling basis until the Implementation Deed is fully executed which may take 2 to 3 weeks.

In respect of other conditions to the Funding Transaction,

- the Company has received informal indications of support for the LAW Restructure relating to the EFI Facility Agreement. We are in the process of formally documenting this agreement.
- Partners for Growth VI, LP (**PFG**) remain supportive of the Funding Transaction and the conditions applicable to PFG. We will be commencing the drafting of formal PFG Facility amendments required for completion of the funding transaction.

It remains the Board's intent to seek shareholder approval for the Funding Transaction when binding agreements are in place in respect of the SAF, EFI and PFG facilities which are required to satisfy certain of the conditions to receiving Tranche 2 funding under the Funding Transaction.

- **Cash Collections (case related) - US\$1.9 million**

Cash collected from the PFG and EFI books of receivables was US\$1.8 million and US\$0.1 million, respectively. PFG book collections of US\$1.8 million were below the quarterly average during 2022 (US\$2.0 million), reflecting a contracting book however they exceeded the collections of owned receivables in 4Q22.

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

Originations remained on hold in 1Q23 as we focused on the Funding Transaction above and progressing the Trident Health Group ("Trident HG") initiative.

- **Trident HG Update**

The Supplier Service Agreement between Trident HG and the US's largest hospital management company was executed in March 2023. We continue to work toward signing up the first hospital under a User Agreement and expect progress in the next few weeks.



- **Operating Expenditure (OPEX)**

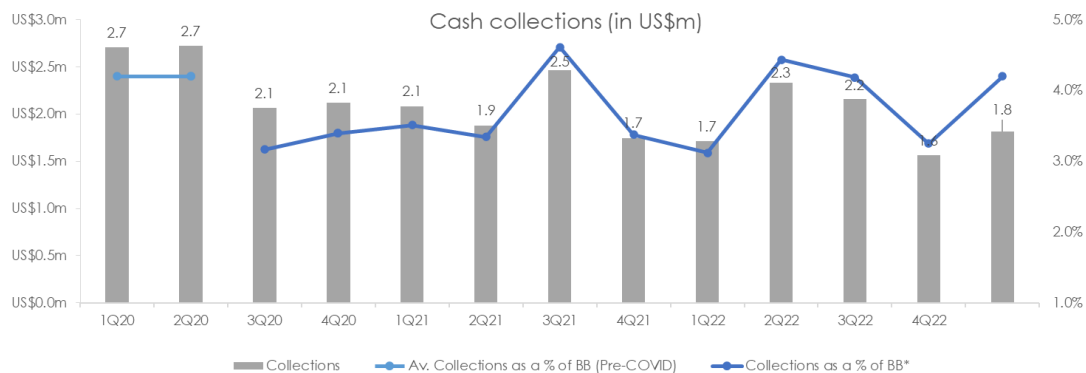
Average monthly OPEX of US\$0.34 million in 1Q23 inclusive of payments made in respect of EFI Book legal expenses from segregated funds not available for general operations. OPEX in 1Q23 was in line with expectations.

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 1Q23 of US\$1.8 million, whereas the average of per quarter, for 2022 was US\$2.0 million (excluding letter of credit repayments). Collections were 4.2% of the monthly borrowing bases, which was above the overall average collections since the commencement of COVID impacts. This represents a strong quarter of collections given the contracting PFG Book.



**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 1.35x in 1Q23,

Cash Collections (EFI book)

The EFI book collections were low again in 1Q22 (US\$0.1 million).

- As stated in the 2022 Annual Report dated 31 March 2023, the Company’s subsidiary NHF SPVIII, LLC (borrower under the EFI Facility) breached the LVR covenant on the EFI facility on 31 March 2023.
- In connection with the Funding Transaction discussed above, EFI have indicated their support to, transfer the shares in NHF SPVIII, LLC to the Agent (or as directed) under the EFI Facility Agreement. Further they have indicated that they will provide LAW with a full release from all its obligations under the EFI Facility Agreement and relevant finance documentation in return for 7.5% of the post restructuring share capital of LAW assuming that all the LAW Restructure conditions to the Funding Transaction are satisfied (including shareholder approval). We are currently working to formalise an agreement to this effect.

**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\$101,970 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

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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 March 2023

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	1,839	1,839
	(b) PFG book - Lines of Credit		
	- Interest / Returns Received	-	-
	- Principal Repaid	-	-
	(c) EFI book – Medical Liens Settled	79	79
1.2	New origination payments		
	(a) Medical Lien Claims acquired	(10)	(10)
	(b) Lines of Credit Funding	-	-
1.3	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	-	-
	(c) advertising and marketing	-	-
	(d) leased assets	-	-
	(e) staff costs	(457)	(457)
	(f) administration and corporate costs	(591)	(591)
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	(263)	(263)
	(b) Net Debt Movement	(1,178)	(1,178)
1.8	EFI Working Capital Facility		
	(a) Interest Payments	(600)	(600)
	(b) Principal Payments	452	452

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	(729)	(729)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(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	-	-
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	0

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.5	Proceeds from borrowings - corporate	-	-
3.6	Repayment of borrowings - corporate	(1)	(1)

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)	(4)
3.8	Dividends paid	-	-
3.9	Other – Repayment of Lease Liabilities	(10)	(10)
3.10	Net cash from / (used in) financing activities	(15)	(15)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,460	1,460
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(729)	(729)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	0	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(15)	(15)
4.5	Effect of movement in exchange rates on cash held	(16)	(16)
4.6	Cash and cash equivalents at end of period	700	700

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	420	420
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other:		
	(a) Term Deposits for Bank Guarantees	-	-
	(b) Third Party LockBox Accounts	280	280
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	700	700

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	(102)
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	52,940	52,940
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	52,940	52,940

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. As stated in the Company's 2022 Annual Report PFG have continued to provide extensions of these Facility amendments throughout 1Q23 (and continuing) while the Company seeks to finalise longer term funding arrangements. The Conditional Funding Transaction that the Company is seeking to execute was detailed in the announcement dated 31 March 2023.

8. Estimated cash available for future operating activities	\$USD'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(729)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	700
8.3 Unused finance facilities available at quarter end (Item 7.5)	0
8.4 Total available funding (Item 8.2 + Item 8.3)	700
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.96

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 Company expects the current level of net cash used for operating activities to continue in future periods. The levels of net cash used for operating activities is largely driven by the levels of collections given that all collections are currently being applied to repay debt. The Company expects collections in 2Q23 to be maintained at similar levels to 1Q23.

Further, funding is expected to be provided (through the PFG Facility) pursuant to the conditional funding transaction referred to below (question 2) to fund expected levels of operating expenses.

If unavailable/trapped cash of \$0.28 m is excluded from Item 8.2, then the estimated quarters of funding available reduces to 0.58.

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: Yes. Please refer to the announcement on 31 March 2023 ("Conditional funding transaction and CCN extension"). This transaction is in the process of being executed.

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 the completion of the conditional funding transaction referred to above.

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: 5 May 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 March 2023- 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	24,660	24,660	4/Dec/2023	12.50%	Y	This amortising facility relates to the run-off of the back book of the US medical lien receivables. The LVR Covenant under this facility was breached as at 31 March 2023 and the Group is in progressed discussions with EFI to restructure this facility in line with the conditions to the Conditional Funding Transaction announced on 31 March 2023.
Partners for Growth	9,721	9,721	14/Apr/2024	11.75%	Y	This facility is used to fund the US medical lien and letter of credit (LOC) funding business. 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). The Group is in progressed discussions with PFG to restructure this facility in line with the conditions to the Conditional Funding Transaction announced on 31 March 2023.
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 unavaiaable/trapped cash due to to its lockbox nature.
<u>Corporate debt facilities</u>						
EQT - Syndicated Acquisition Facility - Tranche 1	15,437	15,437	28/May/2026	9.50%	Y	Shareholders at the company's 2021 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 since the December 2021 quarter to date has been capitalised as elected by LAW under the facility agreement. The Company breached financial covenants as at 31 December 2022 and there is a subsisting Event of Default under the Facility. The Company is in progressed negotiations to restructure this facility in line with the conditions to the Conditional Funding Transaction announced on 31 March 2023.
EQT - Syndicated Acquisition Facility - Tranche 2	2,952	2,952	28/May/2025	9.50%	Y	
EQT - Syndicated Acquisition Facility - Tranche 3	73	73	28/May/2027	9.50%	Y	
Convertible Promissory Note	3	3	15/Sep/2022	0.00%	N	Given 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 the Note terms became payable in the amount of A\$4,779.
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	144	144	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.
	\$52,940	\$52,940				
	-\$ 384	-\$ 384	Check			
Unused Facility		\$0				