



ASX Announcement (ASX: LAW)

31 July 2023

Quarterly Activities Report – June 2023 Quarter

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

June 2023 quarter (1Q23) KPI and commentary:

- **Conditional Funding Transaction**

Pursuant to the Conditional Funding transaction announced on 31 March 2023 (**Funding Transaction**), the Funder Lucerne LCF Pty Ltd (the **Funder**) provided the LAW Group with three instalments, comprising Tranche 1 funding totalling approximately US\$750,000, in 2Q23. This funding was utilised by the LAW group for general operating expenses and was provided by way of a junior participation in the Partners For Growth (**PFG**) loan facility.

As announced on 14 July 2023, the Funder acquired the debt of the only Secured Term Syndicated Facility Agreement (**SAF**) Lender who had indicated that it was not supportive of the SAF restructuring condition to the Funding Transaction (**Debt Trade**). LAW has now received indications of support, for the SAF restructuring condition, from all SAF Lenders.

Progress of completing all the restructuring conditions to the Funding Transaction has been slower than initially expected while the Debt Trade completed. LAW is now working with the SAF Lenders to negotiate and agree a formal implementation deed with all SAF Lenders (**SAF Implementation Deed**). LAW is working towards finalising the SAF Implementation Deed in August 2023.

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.

LAW is currently targeting the end of September 2023, to complete all the restructuring conditions to the Funding Transaction and Tranche 2 funding. Tranche 2 funding was originally envisaged to be US\$2.55 million, however following the Debt Trade, Tranche 2 funding has been reduced to US\$2.35 million. If the Funding Transaction proceeds, PFG will now receive US\$1.1 million of Tranche 2 funding, as an initial debt repayment, whereas they were previously to receive US\$1.3 million.

Given the delays, in completing the restructuring conditions, one of the SAF Lenders has offered to provide a further US\$50,000 interim funding to the LAW group as a contribution towards funding operating expenses prior to completion of the Funding Transaction and the receipt of Tranche 2 funding. This offer is conditional upon PFG also agreeing that the minimum cash required to be maintained by National Health Finance, pursuant to the facility terms, is reduced from US\$250,000 to US\$100,000.

LAW has recently submitted a proposal to reduce the cash minimum required under the facility and final terms for the restructuring of the PFG Facility. Informal indications are that PFG remain supportive of the Funding Transaction and are likely to support the recent proposal put to them.



Upon receipt of PFG's confirmation of support we will commence the drafting of the formal PFG Facility amendments required for completion of the Funding Transaction.

As stated in the March 2023 Quarterly Activities Report LAW has received informal indications of support for the LAW Restructure relating to the EFI Facility Agreement. We are in the process of finalising documentation of this agreement, which we anticipate to agree in August.

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\$1.6 million**

Cash collected from the PFG and EFI books of receivables was US\$1.3 million and US\$0.3 million, respectively. PFG book collections of US\$1.3 million were below the quarterly average during 2022 (US\$2.0 million), reflecting a contracting book.

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

Originations remained on hold in 2Q23 as we focused on the Funding Transaction above and progressing the Trident Health Group ("Trident HG") initiative.

- **Trident HG Update**

As announced previously, the Supplier Service Agreement between Trident HG and the US's largest hospital management company was executed in March 2023. Two hospitals have reached out to THG for its services and we currently have a plan in place to move forward with two other facilities for a total of four (4) hospitals to commence Trident HG operations. Timing of commencement of Trident HG operations is currently uncertain.

- **Operating Expenditure (OPEX)**

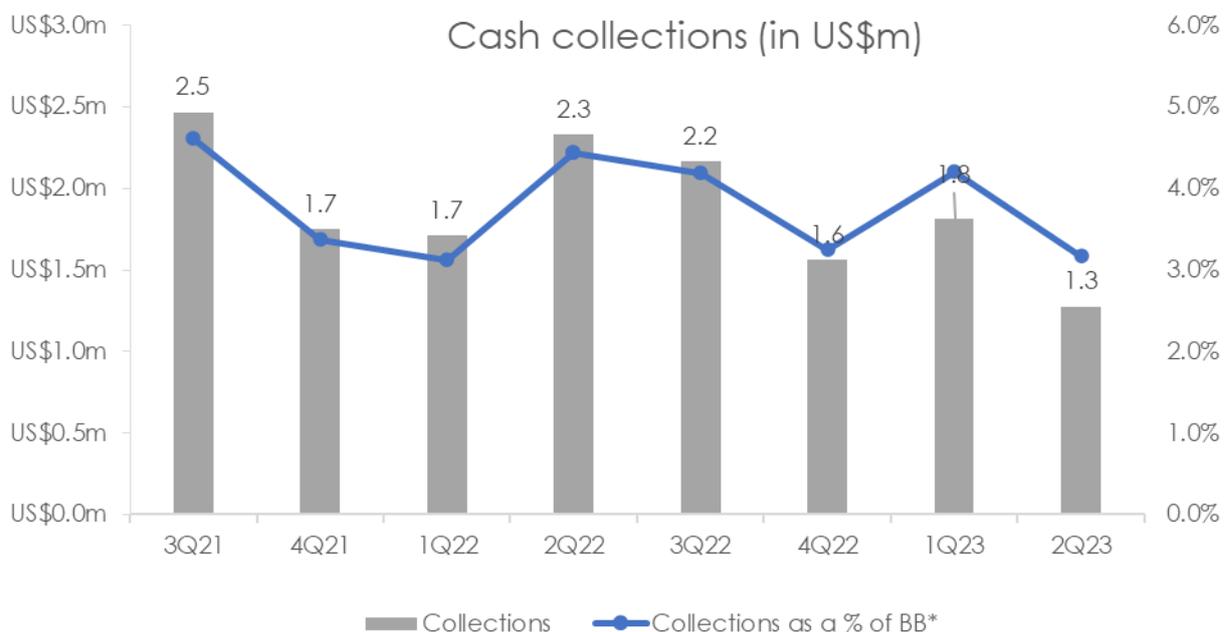
Average monthly OPEX of US\$0.23 million during 2Q23 is inclusive of payments made in respect of EFI Book legal expenses from segregated funds not available for general operations. OPEX in 2Q23 was in line with expectations and included professional advisor fees relating to completion of the FY22 audited annual report and in respect of the various restructuring transactions which are conditions to the Funding Transaction.

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 2Q23 of US\$1.3 million, whereas 1Q23 was US\$1.8 million. Monthly collections in 2Q23 averaged 3.2% of the outstanding book/borrowing base which was below the last 2 years overall average of 3.8%.



**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 1.21x in 2Q23, which were lower than expected. This average MOCE was impacted by a settlement of US\$0.2 million on problematic NY paper at 0.8x COGS while low represented a strong outcome which exceeded the written down book value of the paper in the Company’s financial accounts as at 31 December 2022.

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 A\$5,784 (US\$3,807.25) paid to related parties for salaries and directors’ fees paid to executive and non-executive directors for 2Q23. The payments made comprised of final superannuation and PAYG withholding tax payments relating to Daniel Kleijn’s final salary payments made in 1Q23. 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")

30 June 2023

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (6 months) \$USD'000
1.	Cash flows from operating activities		
1.1	Receipts from customers		
	(a) PFG book – Medical Liens Settled	1,276	3,116
	(b) PFG book - Lines of Credit		
	- Interest / Returns Received	-	-
	- Principal Repaid	-	-
	(c) EFI book – Medical Liens Settled	294	373
1.2	New origination payments		
	(a) Medical Lien Claims acquired	(6)	(15)
	(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	(251)	(708)
	(f) administration and corporate costs	(448)	(1,039)
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	(229)	(492)
	(b) Net Debt Movement	(345)	(1,523)
1.8	EFI Working Capital Facility		
	(a) Interest Payments	(785)	(1,385)
	(b) Principal Payments	551	1,002

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (6 months) \$USD'000
1.9 Net cash from / (used in) operating activities	57	(671)

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	(2)	(3)

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (6 months) \$USD'000
3.7	Transaction costs related to loans and borrowings (including interest)	(2)	(6)
3.8	Dividends paid	-	-
3.9	Other – Repayment of Lease Liabilities	(9)	(18)
3.10	Net cash from / (used in) financing activities	(13)	(28)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	700	1,460
4.2	Net cash from / (used in) operating activities (item 1.9 above)	57	(671)
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)	(13)	(28)
4.5	Effect of movement in exchange rates on cash held	7	(9)
4.6	Cash and cash equivalents at end of period	751	751

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	491	420
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other:		
	(a) Term Deposits for Bank Guarantees	-	-
	(b) Third Party LockBox Accounts	260	280
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	751	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	(4)
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

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

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$USD'000	Amount drawn at quarter end \$USD'000
7.1 Loan facilities	53,451	53,451
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	53,451	53,451

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. The Company is currently seeking and to date receiving, support and covenant relief and/or waivers on a regular basis while the Company works to complete the Conditional Funding Transaction that the Company is seeking to execute which was detailed in the announcement dated 31 March 2023. As part of this Conditional Funding transaction one of the conditions is that the PFG facility be restructured to facilitate a managed wind down of the PFG Book, to maximise recoverable value. To date PFG remain supportive of the Conditional Funding Transaction and the PFG facility restructuring agreement. The Company is seeking to agree and execute a formal amendment and restatement of the PFG Facility agreement during August 2023.

8. Estimated cash available for future operating activities	\$USD'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	51
8.2 Cash and cash equivalents at quarter end (Item 4.6)	751
8.3 Unused finance facilities available at quarter end (Item 7.5)	0
8.4 Total available funding (Item 8.2 + Item 8.3)	751
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	14.73

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

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

Answer:

The levels of net cash used for operating activities is largely driven by the levels of collections given that all collections are currently being applied to repay debt. However, in 2Q23, the Company received Tranche 1 funding pursuant to the Conditional Funding Transaction of approximately \$750,000 via the PFG debt. This funding/receipts were captured at 1.7 b) above (PFG Net Debt Movement) which drove the Net Cash from Operating activities of \$57,000 in 2Q23. The Company expects collections in 3Q23 to be maintained at similar or potentially greater levels to 2Q23. However the Company is also working towards completing the Conditional Funding Transaction and Tranche 2 funding of \$1.25m, (net of \$1.1 million payable to PFG to reduce debt). If this Tranche 2 funding is received in 3Q23, it will also impact the PFG Net Debt Movement in 3Q23 and drive a significant operating cash surplus in 3Q23.

Further, funding is expected to be provided (through the PFG Facility) pursuant an offer from one of the SAF Lenders to provide \$50,000 of interim funding for operations in the lead up to completion of the Funding Transaction and receipt of Tranche 2 funding (pursuant to the Conditional Funding transaction) which we are targeting for around the end of September 2023. We are also awaiting formal confirmation from PFG that they agree to the Company's proposal submitted in late July 2023, to allow the minimum cash to be held pursuant to the PFG debt facility be reduced from \$250,000 to \$100,000 to fund expected levels of operating expenses.

If unavailable/trapped cash of \$0.26 m is excluded from Item 8.2, then the estimated quarters of funding available reduces to 9.6.

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") and subsequent Market Updates relating to the transaction and its conditions. 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: 31 July 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 - 30 June 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	25,208	25,208	4/Dec/2023	12.50%	Y	This amortising facility relates to the run-off of the back book of the US medical lien receivables.
Partners for Growth	9,490	9,490	14/Apr/2024	11.75%	Y	This facility is used to fund the US medical lien and letter of credit (LOC) funding business.
Partners for Growth - Redraw Account	-50	-50				The Redraw Account is controlled by PFG where collections are deposited to, interest charged and redraws are made. The account was previously controlled by LAW until October 2021 and recorded as unavaible/trapped cash due to its lockbox nature.
<u>Corporate debt facilities</u>						
EQT - Syndicated Acquisition Facility - Tranche 1	15,600	15,600	28/May/2026	9.50%	Y	Shareholders at the company's recent AGM approved the restructure, which reduced the debt to a A\$23.8m facility with a reduced interest rate of 9.50% and repayable on maturity in two tranches i) A\$20m in 5 years and ii) A\$3.8m in 4 years. The remainder of the facility converted to equity. On 5 May 2022, Tranche 3 of A\$0.1m was drawn at an interest rate of 9.5% and repayable in 5 years to fund general corporate and working capital for the group. Interest for the December 2021, March 2022, June 2022 and September 2022 quarter has been capitalised as elected by LAW under the facility agreement.
EQT - Syndicated Acquisition Facility - Tranche 2	2,983	2,983	28/May/2025	9.50%	Y	
EQT - Syndicated Acquisition Facility - Tranche 3	74	74	28/May/2027	9.50%	Y	
Convertible Promissory Note	3	3	15/Sep/2022	0.00%	N	The issue of these shares is subject to shareholder approval at the next meeting of shareholders. In the event that the Company does not obtain shareholder approval, the Company must pay the outstanding amount in the form of a cash consideration. The cash settlement amount will be the number of shares issued multiplied by the Company's 7 day volume weighted average share price immediately prior to the date that the Company intends to pay the cash settlement amount. This remains unpaid in line with the companies strategy to manage cash diligently until it raises further capital
Capitalising Converting Note	-	-	31/Dec/2022	6.00%	N	This facility has now been classified as equity, as it is only payable as ordinary shares, not as cash. The quarterly capitalised interest is also converted to equity on a quarterly basis, and is also only payable as ordinary shares. This was voted on and agreed to by shareholders at the Company's Extraordinary General Meeting on 10 March 2020, and reflected in the Appendix 3G released to the market on 9 June 2020.
EIDL	143	143	26/Jul/2051	3.75%	N	This Economic Injury Disaster Relief Loan (EIDL) was made available by the US Small Business Administration to assist companies financially during the COVID-19 pandemic.
	\$53,451	\$53,451				
	\$ -	\$ -	Check			
Unused Facility		\$0				