LawFinance Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	LawFinance Limited
ABN:	72 088 749 008
Reporting period:	For the half-year ended 30 June 2023
Previous period:	For the half-year ended 30 June 2022

2. Results for announcement to the market

				US$'000
Revenue from ordinary activities	down	96.8%	to	105
(Loss) from ordinary activities after tax attributable to the owners of LawFinance Limited	down	7.2%	to	(4,607)
(Loss) for the half-year attributable to the owners of LawFinance Limited	down	7.2%	to	(4,607)

Dividends
There were no dividends paid, recommended or declared during the current financial period.

Comments
The (loss) for the Group after providing for income tax and non-controlling interest amounted to US$4,607,000 (30 June 2022: US$4,965,000).

The total comprehensive loss for the Group amounted to US$4,070,000 (30 June 2022: US$3,919,000).

For further commentary, refer to 'Review of operations' within the Directors' report of the Interim Financial Report.

3. Net tangible assets

	30 June 2023 Cents	31 Dec 2022 Cents
Net tangible assets per ordinary security	(61.73)	(55.41)

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.

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 30 June 2023.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

All foreign entities are presented in compliance with Australian Accounting Standards (AASB).

10. Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Financial Report. The review report contains a paragraph that draws attention to the use of the going concern basis for the preparation of the financial statements.

11. Attachments

Details of attachments (if any):

The Interim Financial Report of LawFinance Limited for the half-year ended 30 June 2023 is attached.

12. Signed

As authorised by the Board of Directors

Signed ______________________________ Date: 13 September 2023

Tim Storey
Chairman
Sydney

LawFinance Limited

ABN 72 088 749 008

Interim Financial Report - 30 June 2023

LawFinance Limited
Contents
30 June 2023

Directors	Tim Storey - Non-Executive Chairman Daniel Kleijn - Non-Executive Director Anthony Murphy - Non-Executive Director
Company secretary	Phillip Smith
Registered office and principal place of business in Australia	Automic Group Level 5 126 Phillip Street Sydney NSW 2000 Tel: 1300 288 664 (within Australia) or +61 2 9698 5414 (outside Australia) Fax: +61 2 9287 0303
Principal place of business in US	Suite 120 1347 North Alma School Road Chandler AZ 85224
Share register	Automic Pty Ltd Level 5 126 Phillip Street Sydney NSW 2000 Tel: 1300 288 664 (within Australia) or +61 2 9698 5414 (outside Australia) Fax: +61 2 9287 0303
Independent Auditor	Stantons Level 36, Gateway 1 Macquarie Place Sydney NSW 2000
Solicitors	Arnold Bloch Leibler Level 24, Chifley Tower 2 Chifley Square Sydney NSW 2000 Automic Pty Ltd Level 5 126 Phillip Street Sydney NSW 2000
Stock exchange listing	LawFinance Limited shares are listed on the Australian Securities Exchange (ASX code: LAW)
Website	www.lawfinance.com.au

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of LawFinance Limited (referred to hereafter as the 'Company', 'LAW' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 30 June 2023.

Directors

The following persons were directors of LawFinance Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Tim Storey
Anthony Murphy
Daniel Kleijn
David Wattel (resigned on 28 February 2023)

Review of operations

At the end of 2022, 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 in September 2022, to conserve cash resources.

In the first half of 2023, the business did not originate any new medical receivables funding. The reduced NHF team focused on collection activities and the run-off of both the PFG and EFI books of receivables. In addition, significant work was undertaken to prepare for the operational transfer of servicing activities relating to the EFI book of receivables. Transfer of control of the EFI book is expected to take place in the coming month (refer to note 14) as part of satisfying the EFI Restructuring Conditions to the Funding Transaction. This Funding Transaction and the LAW Restructuring Conditions are discussed below under the heading Significant Changes in the State of Affairs.

In March 2023, NHF’s joint venture Trident Health Group executed a Supplier Service Agreement between Trident HG and the US’s largest hospital management company. This agreement was a critical step for Trident Health Group. Trident Health Group is currently in active discussions with at least 5 Arizona based hospitals to agree a funding partnership. These discussions have taken longer to progress to their current state than had previously been planned. Notwithstanding the speed of progress to date, the Directors consider that the market for Trident Health Group’s services is large and that it has the potential to become a primary value driver for the Company moving forward.

As at 31 December 2022 the Group had a net asset deficiency of $35,254,000 and in need of a restructuring and strengthening of its balance sheet. In the first half of 2023, significant focus was on restructuring the Group’s balance sheet and obtaining funding required to run-off the PFG Book over time, in order to maximise its realizable value to repay debt and release capital to fund the commencement of Trident HG operations and/or the exploration of new business opportunities/investments. A conditional Funding Transaction was announced on 31 March 2023, and while not yet complete, $750,000 of Tranche 1 funding was received by the Group in the first half of the year to fund group operations. Progress of this Funding Transaction including satisfaction of the restructuring conditions to receive Tranche 2 funding of $2.35 million are discussed further below under the heading Significant Changes in the State of Affairs.

As detailed in note 14, the Company has agreed various finance facility support measures with PFG which currently expire in September 2023. Both the EFI and SAF debt facilities had subsisting events of default as at 30 June 2023. While not certain, the Directors are confident of executing conditional financial restructuring agreements over the coming month in satisfaction of conditions to the Funding Transaction. Completion of Funding Transaction including receipt of Remaining Funding of US$2.35 million would return the Group to a net asset surplus and provide the liquidity to continue to wind down the PFG Book, progress Trident and continue to explore new opportunities for investment.

Nature of operations and principal activities

During the financial half-year the Group operated a medical lien funding business in the United States.

<u>Medical lien funding</u>
National Health Finance Holdco, LLC and its subsidiaries ('NHF') operate a medical lien funding business in the United States.

Established in 1999, the NHF business is an Arizona-based medical lien funding business with the ability to provide funding in 22 states in the United States. The medical liens purchased generally relate to the provision of medical services to individuals involved in motor vehicle accidents where the services are required due to an injury sustained in the accident and where those individuals were the not-at-fault party (except in Michigan, which is a not-at-fault state). This business was purchased by the Group on 28 September 2018.

NHF purchases a lien or obtains a letter of protection over medical receivables associated with personal injury cases from healthcare providers and hospitals. The return to NHF is realised upon payment by the at-fault party or their insurance carrier upon conclusion of the personal injury litigation, either by settlement or judgment.

NHF provides a funding solution for the victim of a motor vehicle accident by facilitating access to medical care they would likely not otherwise receive. NHF's funding solution enables medical providers to maintain liquidity and reduce the administrative burden by managing the medical claims through the litigation process. Medical providers working on a lien basis who do not use the NHF solution are required to wait for a successful conclusion of the legal proceeding before being paid. NHF's funding solution is also of benefit to the lawyers acting on behalf of the injured party as it ensures there is no "gap" in medical care and the claim can be maximised. Thus, the solution assists all three plaintiff-side parties.

The key business drivers of the NHF business entail ensuring that:

- an appropriate discount is negotiated with the medical provider when purchasing each medical lien or letter of protection. On average NHF pays around 30% of the face value of the relevant invoice;
- the law firm progresses the case within normal parameters. On average NHF's cases are completed in less than 3 years; and
- an appropriate amount for the medical lien is paid from each case settlement. On average NHF collects around 1.4 to 1.6 times of the investment value of a medical lien when the applicable case concludes.

In any given financial period, the profitability of this business is dependent upon revenue and settlement levels. Legislative, regulatory, judicial, policy changes, and additional competition may have an impact on future profitability.

During 2022, NHF set up a new joint venture (Trident Health Group) with two partners to acquire medical receivables from emergency departments in hospitals. In the US, federal law states that Medicaid and Medicare should not reimburse medical expenses if there is a reasonable expectation that a third party liability insurer will cover these costs. Trident Health Group has been established to assist hospitals in meeting these requirements by buying medical receivables with third-party insurance that the hospital would otherwise pass on to Medicaid and Medicare.

Significant changes in the state of affairs

On 3 January 2023, the Company announced that it had entered into discussions with the holders of the Capitalised Converting Notes ('CCN') and that the Board 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. The existing CCNs would have converted on 31 December 2022 to 2,045,531 shares based on an outstanding principal of A$20.5 million and a conversion price of A$10 per share. CCN holders agreed that no interest will be capitalised in the period up to 30 September 2023.

On 28 February 2023, Daniel Kleijn resigned as an executive/Group CEO and will remain as a non-executive director. David Wattel resigned as non-executive director of the Company and some of its US-based subsidiaries.

In March 2023, NHF's joint venture Trident Health Group executed a Supplier Service Agreement between Trident HG and the US's largest hospital management company. This agreement was a critical step for Trident Health Group. However, Trident Health Group has not yet funded any medical receivables and continues to pursue its first hospital funding partner. Trident Health Group is currently in active discussions with at least 5 Arizona based hospitals to agree a funding partnership. The Directors consider that the market for Trident Health Group's services is large and that it has the potential to become a primary value driver for the Company moving forward.

On 31 March 2023, the Company reached agreement with Lucerne LCF Pty Ltd (who is a related party) (the 'Funder') to provide US$3.3 million of funding to certain of the Company's US subsidiaries ('Funding Transaction'). Subsequently as stated in the Quarterly Activities Report dated 31 July 2023 the total funding to be provided to the Company was reduced to US$3.1 million. This $200,000 reduction in total funding was agreed to in connection with the Funder's acquisition of a portion of the Syndicated acquisition facility ('SAF') debt held by the only SAF Lender who indicated that they did not support Funding Transaction. This debt purchase by the Funder was announced on 14 July 2023. This is discussed further in note 14.

The intended purpose of the $3.1 million Funding Transaction (as amended) is as follows:

(i) US$1.7 million to fund operations of the Group;
(ii) US$1.1 million to reduce debt outstanding to Partners For Growth VI, LP ("PFG"); and
(iii) US$0.3 million to pay a commitment fee to the Funder conditional on advance of Tranche 2 described below.

The Funding Transaction will be made by the Funder in two Tranches, via a participation in loans made pursuant to the Loan and Security Agreement between (among others) NHF SPV IV, LLC, National Health Finance DM, LLC (together the 'Borrowers') and PFG dated 14 April 2021 (as amended from time to time) ('PFG Loan Agreement').

During the first half of the year, the Funder provided Tranche 1 funding totalling $0.75 million, to PFG which was on-lent to the Borrowers, pursuant to the terms of the PFG Loan Agreement, to fund operations of the Group.

Tranche 2 funding of $2.35 million ('Remaining Funding') remains outstanding and is expected to be funded upon satisfaction of the following conditions to the Funding Transaction which are currently in the process of being satisfied:

(i) all indebtedness outstanding under the SAF Facility Agreement is to be converted into ordinary shares in LAW ('SAF Restructuring Condition') (refer to note 14);
(ii) the transfer of the shares in NHF SPV III, LLC to or as directed by the "Agent" under the syndicated facility agreement dated 4 December 2020 (as amended from time to time) between, among others LAW, NHF SPV III, LLC and EFI Cayman SPC for and on behalf of NHF SPV III Segregated Portfolio ('EFI Facility Agreement') and the full release of LAW from all its obligations under the EFI Facility Agreement and relevant finance documentation ('EFI Restructuring Condition') (refer to note 14);
(iii) the terms of the existing Capitalising Convertible Note Deed Poll dated 5 June 2020 ('CCN') is restructured so that (i) the "Maturity Date" is extended to "30 June 2025"; the interest rate is amended to 8% per annum; and the terms are amended such that on conversion at the "Maturity Date" under the CCN the existing Noteholders" under the CCN are entitled to receive approximately 15% of the re-organised shares in LAW (immediately following the LAW Restructure) ('CCN Restructuring Condition') (refer to note 16);
(iv) the terms of the PFG Loan Agreement are amended on terms acceptable to the Borrowers and to PFG, including certain amendments to the proceeds waterfall and a reset of the financial covenants and undertakings in line with expected performance of the receivables owned by the Borrowers ('PFG Restructuring Condition') (refer to note 14); and
(v) the Funder (or its nominee) to receive approximately 3% of the re-organised shares in Company, immediately following the LAW Restructure.

The above conditions are collectively referred to as the LAW Restructuring Conditions.

Further to satisfying the LAW Restructuring Conditions, approval for the Funding Transaction will need to be obtained from the SAF Lenders and Shareholders. The Company is currently working to finalise binding conditional agreements in respect of the SAF Restructuring Condition, EFI Restructuring Condition, CCN Restructuring Condition and the PFG Restructuring Condition. Following achieving this, the Directors intend to convene a meeting of shareholders to consider approval of the Funding Transaction. The Directors will provide further details to Shareholders in this regard in due course.

The Company understands that the Funder has entered into a highly conditional back-to-back funding arrangement with Kenanga Investment Berhad ('Kenanga') and the Funder is fully reliant on it receiving the investment funds from Kenanga to have sufficient funds to satisfy its obligation to provide the Remaining Funding. The Company understands that the agreement between the Funder and Kenanga with respect to the Remaining Funding is highly conditional and the Funder may not have any ability to require Kenanga to provide the Remaining Funding to the Funder.

Further, the Remaining Funding is subject to a number of conditions, some of which are outside the control of the Company 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 (refer to note 2).

There were no other significant changes in the state of affairs of the Group during the financial half-year.

Matters subsequent to the end of the financial half-year

The Funder acquired a portion of SAF facility debt from the only SAF Lender who had not provided the Company with indication that they would support the Funding Transaction. This SAF debt trade was announced on 14 July 2023, and is referred to above and further detailed in note 14. This debt trade had the impact of reducing the total amount of funding to be provided to the Company's US Subsidiaries by $200,000 and has also cleared the way for the Company to continue to progress negotiations to satisfy the SAF Restructuring Condition as well as the other conditions to the Funding Transaction.

The Company is currently progressing negotiation of legal agreements aimed at achieving binding conditional restructuring agreements in respect of the LAW Restructure Conditions, referred to above. Upon achieving this the Directors intend to convene a meeting of Shareholders of the Company to seek shareholder approval for the Funding Transaction.

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

____
Tim Storey
Chairman

13 September 2023
Sydney

PO Box 1908
West Perth WA 6872
Australia

Level 2, 40 Kings Park Road
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

13 September 2023

Board of Directors
Lawfinance Limited
Level 5
126 Philip Road
Sydney NSW 2000

Dear Sirs

RE: LAWFINANCE LIMITED

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Lawfinance Limited.

As Audit Director for the review of the financial statements of Lawfinance Limited for the half-year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(An Authorised Audit Company)

Samir Tirodkar
Director

LawFinance Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2023

	Note	Consolidated 1 Jan 2023 to 30 Jun 2023 US$'000	Consolidated 1 Jan 2022 to 30 Jun 2022 US$'000
Revenue from operations			
Net (loss)/gain from medical lien funding	4	(31)	3,117
Interest income - letter of credit		136	90
Other revenue	5	-	112
Total revenue		105	3,319
Non-supplier related cost of sales		63	(21)
Gross profit		168	3,298
Interest (expense)/income		(3)	7
Expenses			
Employee benefits expense	6	(761)	(2,428)
Depreciation and amortisation expense	6	(45)	(77)
Administration and other expenses	6	(899)	(1,275)
Finance costs	6	(3,138)	(4,365)
(Loss) before income tax expense		(4,678)	(4,840)
Income tax expense		-	-
(Loss) after income tax expense for the half-year		(4,678)	(4,840)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		608	921
Other comprehensive income for the half-year, net of tax		608	921
Total comprehensive loss for the half-year		(4,070)	(3,919)
(Loss) for the half-year is attributable to:			
Non-controlling interest		(71)	125
Owners of LawFinance Limited		(4,607)	(4,965)
		(4,678)	(4,840)
Total comprehensive loss for the half-year is attributable to:			
Non-controlling interest		(71)	125
Owners of LawFinance Limited		(3,999)	(4,044)
		(4,070)	(3,919)
		Cents	Cents
Basic loss per share	7	(7.21)	(10.19)
Diluted loss per share	7	(7.21)	(10.19)

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 30 June 2023

	Note	Consolidated 30 Jun 2023 US$'000	Consolidated 31 Dec 2022 US$'000
Assets			
Current assets			
Cash and cash equivalents	8	745	1,460
Financial assets at amortised cost - USA	9	6,693	8,794
Other receivables	10	133	133
Prepayments		115	217
Total current assets		7,686	10,604
Non-current assets			
Financial assets at amortised cost - USA	9	7,760	9,072
Other receivables	10	9	9
Property, plant and equipment	11	43	64
Right-of-use assets	12	114	138
Total non-current assets		7,926	9,283
Total assets		15,612	19,887
Liabilities			
Current liabilities			
Trade and other payables	13	1,278	1,484
Borrowings	14	53,315	53,249
Lease liabilities		43	41
Employee benefits		48	102
Total current liabilities		54,684	54,876
Non-current liabilities			
Borrowings	14	139	141
Lease liabilities		102	124
Total non-current liabilities		241	265
Total liabilities		54,925	55,141
Net liabilities		(39,313)	(35,254)
Equity			
Issued capital	15	102,671	102,671
Capitalising converting notes	16	14,460	14,460
Reserves	17	28,757	28,025
Accumulated losses		(184,700)	(180,093)
Deficiency attributable to the owners of LawFinance Limited		(38,812)	(34,937)
Non-controlling interest		(501)	(317)
Total deficiency		(39,313)	(35,254)

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 half-year ended 30 June 2023

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 half-year	-	-	-	(4,965)	125	(4,840)
Other comprehensive income for the half-year, net of tax	-	-	921	-	-	921
Total comprehensive (loss)/income for the half-year	-	-	921	(4,965)	125	(3,919)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	3,813	-	-	-	-	3,813
Share-based payments	-	-	353	-	-	353
Distribution to non-controlling interest	-	-	-	-	(12)	(12)
Capitalising converting notes (note 16)	-	453	-	-	-	453
Balance at 30 June 2022	101,439	15,285	27,618	(153,781)	(352)	(9,791)

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 2023	102,671	14,460	28,025	(180,093)	(317)	(35,254)
(Loss) after income tax expense for the half-year	-	-	-	(4,607)	(71)	(4,678)
Other comprehensive income for the half-year, net of tax	-	-	608	-	-	608
Total comprehensive (loss)/income for the half-year	-	-	608	(4,607)	(71)	(4,070)
Transactions with owners in their capacity as owners:						
Share-based payments (note 17)	-	-	124	-	-	124
Distribution to non-controlling interest	-	-	-	-	(113)	(113)
Balance at 30 June 2023	102,671	14,460	28,757	(184,700)	(501)	(39,313)

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 half-year ended 30 June 2023

	Note	Consolidated 1 Jan 2023 to 30 Jun 2023 US$'000	1 Jan 2022 to 30 Jun 2022 US$'000
Cash flows from operating activities			
Cash collections from customers (inclusive of GST)			
PFG book – medical liens settled		3,116	4,026
PFG book - lines of credit - principal repaid		-	3
EFI book – medical liens settled		373	2,341
New origination payments			
Medical lien claims acquired		(15)	(2,242)
Lines of credit funding		-	(5,954)
Payments to suppliers and employees		(1,747)	(3,624)
PFG working capital facility			
Interest payments		(492)	(1,006)
Net debt movement		(1,523)	2,648
EFI working capital facility			
Interest payments		(383)	(1,502)
Principal payments		-	(303)
Net cash (outflow) from operating activities		(671)	(5,613)
Cash flows from investing activities			
Payments for property, plant and equipment		(1)	(5)
Net cash (outflow) from investing activities		(1)	(5)
Cash flows from financing activities			
Proceeds from issue of shares		-	4,502
Share issue transaction costs		-	(523)
Proceeds from borrowings - corporate		-	71
Repayment of borrowings - corporate		(3)	(302)
Repayment of lease liabilities		(19)	(18)
Interest and fees related to loans and borrowings		(6)	(7)
Net cash (outflow)/inflow financing activities		(28)	3,723
Net decrease in cash and cash equivalents		(700)	(1,895)
Cash and cash equivalents at the beginning of the financial half-year		1,460	5,101
Effects of exchange rate changes on cash and cash equivalents		(15)	(24)
Cash and cash equivalents at the end of the financial half-year		745	3,182

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 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:

Automic Group
Level 5
126 Phillip Street
Sydney NSW 2000

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 13 September 2023.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2023 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2022 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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.

The Group made a loss after tax of $4,678,000 for the first half of 2023 year (30 June 2022: $4,840,000) and net cash outflows from operations for first half was $671,000 (30 June 2022: $5,613,000). The after-tax loss of $4,678,000 for the first half of 2023 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 or loss. The impairment 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.

Note 2. Significant accounting policies (continued)

As at 30 June 2023, the Group had a net asset deficiency of $39,313,000 (31 December 2022: net asset deficiency of $35,254,000). The Group had a subsisting event of default under its syndicated debt facility with Efficient Frontier Investing ('EFI') following the borrowing entity (SPV III) breaching the Loan to Value Ratio (LVR) financial covenant under the facility as at 31 March 2023. The Company is in advanced stages of negotiations to agree formal restructuring agreements to restructure the facility in accordance with the EFI Restructuring Condition to the Funding Transactions referred to in the Directors' Report. Under the proposed restructuring transactions the Group would transfer for control of SPVIII (including its assets and the EFI Loan) to EFI or its nominee and would settle the limited guarantee granted by the Company. Refer to note 18 for further details regarding the EFI facility and the limited risks that the facility poses to the Company.

The Group's one remaining and only corporate debt facility as at 30 June 2023 is the Syndicated Acquisition Facility ('SAF) which had outstanding principal and interest of US$18,657,000 (A$28,186,000). As at 30 June 2023, the Group had a subsisting event of default under the facility following a breach of the Asset Coverage financial covenant as at 31 December 2022. The Group formally reported a financial covenant breach to SAF Lenders on 27 March 2023, and subsequently an event of default was triggered on 21 April 2023 following the expiry of the remedy period under the facility. Since the covenant breach, the Company has engaged in protracted restructuring discussions, which stalled until the only unsupportive SAF Lender sold their debt to the Funder on 14 July 2023. This debt trade allowed the recommencement of negotiations to agree a binding conditional restructuring agreement with all SAF Lenders, to convert the entire SAF debt to equity in the Company in satisfaction of the SAF Restructuring Condition to the Funding Transaction. The Company's legal advisors are in the process of finalising comments provided by the majority SAF Lenders' legal counsel on the draft implementation deed before the draft implementation deed is sent to the facility trustee for their review. Management expect that the Implementation Deed will be in an agreed form for submission to all SAF Lenders for their consideration and execution by all SAF Lenders within September 2023. Refer to note 14.

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 change financial covenants, designed to provide the Group with a stable platform to the end of February 2023 which were subsequently extended to 30 September 2023 in order to provide the Group time, to focus on the Group's strategic priorities including refinancing or restructuring the PFG loan. PFG has advised that they have internal approvals to restructure the PFG Facility on terms that would satisfy the PFG Restructuring Condition to the Funding Transaction. As part of completion of the Funding Transaction PFG would receive US$1.1 million of Tranche 2 funding to reduce their exposure and they would amend the facility waterfall such that 15% of all collections would be released to NHF to fund operations. The drawn loan amount at 30 June 2023 was $9,440,000 (as at 31 December 2022: $10,796,000). Refer to note 14.

As at 30 June 2023, the Group held $745,000 (31 December 2022: $1,460,000) in cash. Of this amount $485,000 (31 December 2022: $1,056,000) was unrestricted and available to fund operations and investment in the business. Under the terms of the Facility Modification with PFG, the Group had to maintain at least $250,000 cash in the NHF operating bank account to avoid a default under the terms of the Facility Modification. PFG subsequently agreed to further reduce this amount to $100,000 until 30 September 2023. 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. It is expected that the Group will need to seek a further extension of covenant support and the reduced minimum cash requirement in the period leading up to the Completion of the Funding Transaction.

Completion of the Funding Transaction including receipt of the Remaining Funding (Tranche 2) of US$2.35 million is required to complete the restructuring of the Group's debt facilities and provide further funding for operations. In the first half of the year $0.75 million of Tranche 1 funding was received by NHF to fund operating expenses. Of Tranche 2 funding, $0.95 million is intended to fund the operational requirements of the Group, in addition to funding available from ongoing collections from the PFG Book.

The Directors consider that, if the conditions to Tranche 2 of the Funding Transaction (including the LAW Restructuring Conditions) are satisfied and the funding is provided, the balance sheet will return to a net asset surplus thereby improving the ability to raise new capital to support Trident Health Group and/or other new ventures. The Funding Transaction and the progress of satisfying its conditions is detailed in the Directors' Report.

The Company is currently targeting completion of the Funding Transaction in November 2023.

Note 2. Significant accounting policies (continued)

Directors consider that the strengthening of the Group balance sheet through satisfaction of the conditions noted above, and completion of the Funding Transaction will enable the Group to raise sufficient capital to fund growth and capital deployment profitably through the Trident Health Group joint venture and/or other suitable investment opportunities 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 first half of 2023, ended 30 June 2023. 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 Interim Financial Report.

Note 3. Operating segments

Identification of reportable operating segments
The Group was organised into two operating segments: (i) National Health Finance, comprising the US medical lien funding business and (ii) 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 Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Operating segment information

Consolidated - 1 Jan 2023 to 30 Jun 2023	National Health Finance US$'000	Other US$'000	Total US$'000
Revenue			
Net income from medical lien funding	(31)	-	(31)
Other revenue	136	-	136
	105	-	105
Other income	-	-	-
Total revenue	105	-	105
Segment result	(1,169)	(326)	(1,495)
Depreciation and amortisation	(45)	-	(45)
Finance costs	(2,150)	(988)	(3,138)
(Loss) before income tax expense	(3,364)	(1,314)	(4,678)
Income tax expense			-
(Loss) after income tax expense			(4,678)
Assets			
Segment assets	15,361	251	15,612
Total assets			15,612
Liabilities			
Segment liabilities	36,235	18,690	54,925
Total liabilities			54,925

Note 3. Operating segments (continued)

Consolidated - 1 Jan 2022 to 30 Jun 2022	National Health Finance US$'000	Other US$'000	Total US$'000
Revenue			
Net income from medical lien funding	3,117	-	3,117
Other revenue	123	79	202
	3,240	79	3,319
Other income	-	-	-
Total revenue	3,240	79	3,319
Segment result	899	(1,297)	(398)
Depreciation and amortisation	(77)	-	(77)
Finance costs	(3,043)	(1,322)	(4,365)
(Loss) before income tax expense	(2,221)	(2,619)	(4,840)
Income tax expense			-
(Loss) after income tax expense			(4,840)
Consolidated - 31 Dec 2022			
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

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	
	1 Jan 2023 to 30 Jun 2023 US$'000	1 Jan 2022 to 30 Jun 2022 US$'000	30 Jun 2023 US$'000	31 Dec 2022 US$'000
United States	105	3,207	166	211

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 4. Net (loss)/gain from medical lien funding

	Consolidated	
	1 Jan 2023 to 30 Jun 2023 US$'000	1 Jan 2022 to 30 Jun 2022 US$'000
Medical lien funding - USA:		
Interest income at amortised cost	1,973	3,401
Net impairment loss on financial assets at amortised cost	(891)	(1,071)
Net settlement (loss)/gain on financial assets at amortised cost	(1,113)	787
	(31)	3,117

Note 5. Other revenue

	Consolidated	
	1 Jan 2023 to 30 Jun 2023 US$'000	1 Jan 2022 to 30 Jun 2022 US$'000
Brokerage commission received – insurance	-	79
Rental income	-	33
Other revenue	-	112

Note 6. Expenses

	Consolidated	
	1 Jan 2023 to 30 Jun 2023 US$'000	1 Jan 2022 to 30 Jun 2022 US$'000
(Loss) before income tax includes the following specific expenses:		
Employee benefits expense		
Defined contribution superannuation expense	11	22
Share-based payments expense	124	136
Employee benefits expense excluding superannuation	626	2,270
	761	2,428
Depreciation and amortisation expense		
Depreciation - property, plant and equipment	21	26
Depreciation - right-of-use assets	24	51
	45	77
Administration and other expenses		
ASIC, ASX and share registry fees	23	21
Insurance	89	115
Legal and professional fees	622	801
Rent and office costs	50	56
Travel and accommodation	4	24
Low-value assets lease payments	27	26
Other	84	232
	899	1,275
Finance costs		
Interest expense and line fees	3,132	4,356
Interest - right-of-use assets	6	9
	3,138	4,365

Note 7. Earnings per share

	Consolidated	
	1 Jan 2023 to 30 Jun 2023 US$'000	1 Jan 2022 to 30 Jun 2022 US$'000
(Loss) after income tax	(4,678)	(4,840)
Non-controlling interest	71	(125)
(Loss) after income tax attributable to the owners of LawFinance Limited	(4,607)	(4,965)
	Cents	Cents
Basic loss per share	(7.21)	(10.19)
Diluted loss per share	(7.21)	(10.19)

Note 7. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	63,867,656	48,740,414
Weighted average number of ordinary shares used in calculating diluted earnings per share	63,867,656	48,740,414

As at 30 June 2023 and 2022, 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 8. Cash and cash equivalents

	Consolidated	
	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Current assets		
Cash at bank*	745	1,460

* Of the total cash at bank, $260,000 (31 December 2022: $404,000) is considered unavailable for operations as it is held pending distribution to asset-backed lenders. Refer note 14(i) Efficient Frontier Investing and note 14(iii) Partners for Growth ('PFG').

Note 9. Financial assets at amortised cost - USA

	Consolidated	
	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Current assets		
Loan receivables - medical lien funding - USA (gross)	46,650	62,656
Allowance for expected credit losses	(41,222)	(54,518)
Loan receivables - letter of credit	1,265	656
	6,693	8,794
Non-current assets		
Loan receivables - medical lien funding - USA (gross)	66,674	64,194
Allowance for expected credit losses	(58,914)	(55,856)
Loan receivables - letter of credit	-	734
	7,760	9,072
	14,453	17,866

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 upon historical loss rates and realisation rates specific to the state of origination.

Note 9. Financial assets at amortised cost - USA (continued)

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 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 10. Other receivables

	Consolidated	
	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Current assets		
Other receivables*	133	133
Non-current assets		
Rental bond	9	9
	142	142

* Represents mesh receivables of $126,000 as at 30 June 2023 and 31 December 2022. The associated Mesh liabilities were $nil as at 30 June 2023 and 31 December 2022.

Note 11. Property, plant and equipment

	Consolidated	
	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Non-current assets		
Plant and equipment - at cost	374	374
Less: Accumulated depreciation	(331)	(310)
	43	64

Reconciliations

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

Consolidated	Plant and equipment US$'000
Balance at 1 January 2023	64
Depreciation expense	(21)
Balance at 30 June 2023	43

Note 12. Right-of-use assets

	Consolidated	
	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Non-current assets		
Land and buildings - right-of-use	549	549
Less: Accumulated depreciation	(435)	(411)
	114	138

Additions to the right-of-use assets during the half-year were US$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 13. Trade and other payables

	Consolidated	
	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Current liabilities		
Trade and other payables	248	407
Accruals	1,030	1,077
	1,278	1,484

Trade and other payables are paid within agreed credit terms.

Note 14. Borrowings

	Consolidated	
	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Current liabilities		
Efficient Frontier Investing (i)	25,208	24,072
Syndicated acquisition facility (ii)	18,657	18,308
Partners for Growth ('PFG') (iii)	9,440	10,796
Convertible Promissory Note (iv)	3	3
Economic Injury Disaster Relief loan (v)	4	4
Insurance financing - Australia (vi)	-	62
Credit cards	3	4
	53,315	53,249
Non-current liabilities		
Economic Injury Disaster Relief loan (v)	139	141
	53,454	53,390

Note 14. 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 $25,208,000 as at 30 June 2023 (31 December 2022: $24,072,000). The carrying value of the loan in accordance with AASB 9 Financial Instruments was $25,208,000 at 30 June 2023 (31 December 2022: $24,072,000).

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 2022: 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 30 June 2023, for accounting purposes, the discounted future cash flow value of such receivables (book value) is $2,602,000 which is equivalent to c.10% of the outstanding loan (including capitalised interest). This valuation indicates that, on an accounting basis, there may be a shortfall of $22,606,000 (31 December 2022: shortfall of $21,213,000) 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.

The facility is subject to two financial covenants being a loan to value ratio ('LVR') and a collection hurdle. 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.

EFI agreed to provide a financial covenant testing holiday from and including 31 May 2022 to and including 30 March 2023 ('Covenant Testing Holiday'). When Covenant Testing recommenced, as at 31 March 2023, SPVIII breached the LVR covenant, triggering an event of default under the facility. As at 31 March 2023 the LVR ranged between 101% and 253% when applying high and low estimated realisable value assumptions for SPVIII's assets.

Given the subsisting event of default under the Facility, EFI 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). To date, while restructuring discussions have been ongoing, EFI has not issued of a default notice for prior LVR breaches or charged default interest on the loan. 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.

Prior to and following the event of default, triggered as at 31 March 2023, constructive discussions and negotiations have taken place with EFI in order to reach a restructuring agreement which would satisfy the EFI Restructuring Condition of the Funding Transaction announced on 31 March 2023 and detailed in the Directors' Report (Significant changes in state of affairs). EFI has advised that in principle they are prepared to agree to the two restructuring transactions comprising the EFI Funding Condition. Firstly it is proposed that the shares the Company indirectly owns in SPVIII would be sold to EFI or its nominee for $1 ('First Limb' of the EFI Restructuring Condition). This First Limb would transfer ownership and control of SPVIII and all its assets and liabilities including the EFI facility to the purchaser. NHF would have certain continuing obligation to support the purchaser of SPVIII in respect of ongoing management of SPV III's assets.

Secondly, the limited guarantee issued by the Company in respect of the EFI facility would be settled by way of the Company issuing at least 7.5% of the post restructuring share capital of the Company to the EFI Lenders ('Second Limb' of the EFI Facility Restructuring). The ability to complete this Second Limb is conditional upon, amongst other things the satisfaction of other restructuring conditions to the Conditional Funding Transaction and shareholder approval.

Note 14. Borrowings (continued)

As at the date of this Interim Financial Report the Company's legal advisors consider that the legal documentation in respect of the two limbs of the EFI Restructuring Condition are close to being in an agreed form. Management expects that documentation to be executed within the coming weeks, which would enable satisfaction of the EFI Restructuring Condition of the Funding Transaction as detailed in the Directors' Report (Significant changes in the state of affairs)

While completion of the sale of SPVIII (First Limb) would take place shortly following the execution of the relevant legal agreement, completion of the Second Limb would not occur until the completion of the Funding Transaction, which amongst other things requires shareholder approval. The Company's board of directors intends to seek shareholder approval for the issuance of shares to EFI Lenders once it has obtained binding restructuring agreements in respect of all the restructuring conditions to the Funding Transaction.

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 30 June 2023 of $2,602,000 (31 December 2022 of $2,859,000). 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) US$28,688,000; 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, 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 event of default from breaching the LVR covenant on 31 March 2023 and expiry of the loan term on 4 December 2023 it has been recorded as current as at 31 December 2022 and 30 June 2023.

(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$3,825,000) 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 14. Borrowings (continued)

The Group elected to capitalise the quarterly interest on all 3 SAF Tranches for the first half of 2023. As at 30 June 2023, the total outstanding debt under the three SAF Tranches, inclusive of capitalised interest, totalled $18,657,000 (A$28,186,000) (31 December 2022: $18,308,000 (A$26,903,000)).

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

The first financial covenant testing date under the restructured SAF was 31 December 2022, and the covenants were formally reported to the SAF Lenders on 27 March 2023, with the Company notifying the SAF Lenders of a breach of the Asset Coverage Financial Covenant. An event of default was triggered in respect of the facility on 21 April 2023, following the expiry of the remedy period under the facility.

Following the Covenant breach reported to SAF Lenders on 27 March 2023, the Company entered into formal discussions with the SAF Lenders regarding the potential restructuring of the SAF facility in line with the SAF Facility Restructuring Condition to the Funding Transaction detailed in the Directors' Report (Significant changes in the state of affairs). Satisfaction of the SAF Facility Restructuring Condition pursuant to the Funding Transaction, requires SAF Lenders to agree to convert the outstanding facility debt, including unpaid interest, into ordinary shares of the Company. As at 21 April 2023, at the conclusion of the remedy period under the facility, the Company had received indications of support from most SAF Lenders, to enter into a restructuring agreement in satisfaction of the SAF Facility Restructuring Condition, however one SAF Lender was not supportive. In order to implement the proposed restructuring unanimous support of SAF Lenders is required.

Following the event of default triggered on 21 April 2023, Lucerne LCF Pty Ltd being the Funder of the Funding Transaction detailed in the Directors' Report (Significant changes in the state of affairs), entered into negotiations to acquire the debt held by the one SAF Lender who had not indicated their support for the proposed restructuring terms required to satisfy the SAF Facility Restructuring Condition. On 14 July 2023 the Company announced that on that day the Funder acquired the debt held by the one unsupportive SAF Lender. This sale cleared the way to continue negotiations with the remaining and new SAF Lender, being Lucerne LCF Pty Ltd to agree the terms of a formal implementation deed to be agreed with all SAF Lenders ('SAF Implementation Deed').

The Company's legal advisors are in the process of finalising comments provided by the majority SAF Lenders' legal counsel on the draft implementation deed before the draft implementation deed is sent to the facility trustee for their review. Management hope that the Implementation Deed will be in an agreed form for submission to all SAF Lenders for their consideration and execution by all SAF Lenders within September 2023. All SAF Lenders will need to execute the Implementation Deed for it to comprise a binding agreement with completion of the agreement conditional upon the completion of the Funding Transaction. Despite previous indications of support from all current SAF Lenders to restructure the SAF facility in satisfaction of the SAF Restructuring Condition it remains uncertain whether all SAF Lenders will agree to be bound by the terms of the implementation deed, required to restructure the facility.

The Company's board of directors intends to seek shareholder approval for the issuance of shares to SAF Lenders in accordance with the SAF Restructuring Condition once it has obtained binding restructuring agreements in respect of all the restructuring conditions to the Funding Transaction.

A subsisting default exists under the terms of the SAF Facility agreement. Pursuant to the terms of the facility, given there is a subsisting event of default the Company is no longer able to capitalise interest pursuant to the terms of the facility. Interest charged for the period ending 30 June 2023, has not been paid in accordance with the payment terms of the facility.

Given there is a subsisting event of default under the facility the loan balance has been recorded as current as at 30June 2023, as it was as at 31 December 2022.

(iii) Partners for Growth ('PFG')
The loan facility of $30,000,000 (31 December 2022: $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 2022: 11.25%) and the line fee payable on the relevant facility limit is 0.5% (31 December 2022: 0.5%).

Note 14. Borrowings (continued)

The drawn loan amount of $9,440,000 as at 30 June 2023 (31 December 2022: $10,847,000) comprises of the principal amount of $9,387,000 (31 December 2022: $10,826,000) and accrued interest and legal fees of $103,000 (31 December 2022: $21,000).

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.

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 Eligible letter of credit (loans collateralised against medical lien claims) funding provided to medical service providers by the Group will be funded by PFG at an advance rate of 80%, as opposed to the 85% applicable to medical lien claims owned by the Group.

As at 30 June 2023, 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.

PFG has advised the Company that they have received the required approvals to further formally amend the PFG facility terms in satisfaction of the PFG Restructuring Condition to the Funding Transaction as detailed in the Directors' Report (Significant changes in the state of affairs). PFG has also advised that i) they are prepared to reduce the portion of Tranche 2 funding to be provided by the Funder of the Funding Transaction at the completion of the transaction to reduce PFG’s debt pursuant to the PFG facility from $1.3 million as initially envisaged to $1.1 million and ii) they will waive a $750,000 make good fee payable under the facility. The Company is currently preparing and negotiating documentation to formally amend the PFG Facility terms such that it can satisfy the condition to the Funding Transaction. PFG's formal agreement would allow the Group to run-off the book over time and is expected to facilitate the repayment of the PFG Loan.

PFG agreed to provide an extension of the Facility Modifications and further financial covenant support until 30 April 2023, conditional upon NHF maintaining at least $250,000 of unrestricted cash in its operating bank account at all times. It has subsequently agreed to further extend the covenant support until 30 September 2023, and to reduce the requirement to maintain at least $250,000 of unrestricted cash in its operating bank account down to $100,000 at all times ('minimum cash requirement') in order to facilitate the completion of the Funding Transaction. Management expects to formally request further extensions as required. While it is uncertain whether PFG will agree to such further requests they have indicated that they remain supportive of the Funding Transaction successfully completing.

Prior to the PFG’s decision to extend covenant support until 30 September 2023, in order to support the completion of the Funding Transaction, Tranche 1 funding under the Funding Transaction had been paid in 3 instalments to PFG which was then on-lent to NHF under the terms of the PFG Facility. Further, in satisfaction of a condition to PFG’s agreement to reduce the minimum cash requirement to $100,000 for the period up to 30 September 2023, the Company’s largest shareholder provided a further US$50,000 of funding to PFG in August 2023, which was on-lent to, NHF under the terms of the PFG facility to fund operating expenses in the lead up to completion of the Funding Transaction.

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.

Note 14. Borrowings (continued)

Given that the Facility Modification as extended to 30 September 2023 provides short term support to the Company, and the outcome of the current Funding Transaction, including satisfaction of the PFG Restructuring Condition remains uncertain, the PFG loan amount has been recorded as current as at 30 June 2023.

(iv) 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.

(v) 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 2022: 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.

(vi) 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 30 June 2023, $nil (31 December 2022: A$91,000) remains outstanding.

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

	Consolidated	
	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Total facilities		
Efficient Frontier Investing (a)	25,208	24,072
Syndicated acquisition facility (b)	18,657	18,308
Partners for Growth (c)	9,440	10,796
	53,305	53,176
Used at the reporting date		
Efficient Frontier Investing (a)	25,208	24,072
Syndicated acquisition facility (b)	18,657	18,308
Partners for Growth (c)	9,440	10,796
	53,305	53,176
Unused at the reporting date		
Efficient Frontier Investing (a)	-	-
Syndicated acquisition facility (b)	-	-
Partners for Growth (c)	-	-
	-	-

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

Note 15. Issued capital

	Consolidated			
	30 Jun 2023 Shares	31 Dec 2022 Shares	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Ordinary shares - fully paid	63,867,656	63,867,656	102,671	102,671

Note 16. Capitalising converting notes

	Consolidated	
	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Capitalising converting notes	14,460	14,460

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 half-year ended 30 June 2023, Nil (Year ended 31 December 2022: 186,737) were converted to ordinary shares.

As announced on 3 January 2023, on 31 March 2023, and 3 July the Company was in discussions with the holders of the CCN, and that the Board agreed to postpone the maturity date firstly by three months to 31 March 2023, then subsequently until 30 September 2023. The initial purpose of the extension was to allow a committed funding offer to be provided, which was capable of acceptance by the Group. Subsequent extensions were granted in order to support completion of the Funding Transaction detailed in the Directors' report (Significant changes in the state of affairs). CCN holders have agreed that during the period from 1 January 2023 to 30 September 2023 no interest will be capitalised.

The existing CCNs would have converted on 31 December 2022 to 2,045,531 shares based on an outstanding principal of A$20.5 million and a conversion price of A$10 per share. In order to satisfy the CCN Restructuring Condition of the Funding Transaction announced on 31 March 2023, as detailed in the Directors' Report (Significant changes in the state of affairs) the CCN maturity date would need to be further extended to December 2025, interest rate increased to 8% and the conversion price reduced.

The Company is in the process of finalising the negotiation of formal documentation in order to restructure the CCN in satisfaction of the CCN Restructuring Condition. Management expect that this documentation will be in an agreed form and ready for execution in the coming weeks.

The Company’s board of directors intends to seek shareholder approval for the terms of the CCN restructuring in accordance with the CCN Restructuring Condition once it has obtained binding restructuring agreements in respect of all the restructuring conditions to the Funding Transaction detailed in the Directors' report (Significant changes in the state of affairs).

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 30 June 2023, no interest was capitalised. During the half-year, Nil interest was transferred into equity (31 December 2022: $884,000 (A$1,273,000)).

Note 17. Reserves

	Consolidated	
	30 Jun 2023 US$'000	31 Dec 2022 US$'000
Foreign currency reserve	2,891	2,283
Share-based payments reserve	6,956	6,832
Restructuring reserve	18,910	18,910
	28,757	28,025

Note 17. Reserves (continued)

Movements in reserves
Movements in each class of reserve during the current financial half-year are set out below:

Consolidated	Foreign currency US$'000	Share-based payments US$'000	Restructuring US$'000	Total US$'000
Balance at 1 January 2023	2,283	6,832	18,910	28,025
Foreign currency translation	608	-	-	608
Share-based payments	-	124	-	124
Balance at 30 June 2023	2,891	6,956	18,910	28,757

Note 18. Contingent liabilities

NHF is involved in two separate proceedings (litigation) that were commenced in Florida in 2017. These proceedings relate to a failed medical practice which sold various medical invoices to NHF. The proceedings are being defended as the medical invoices purchased were on an arm's length basis and are subject to a contract entered into with the now bankrupt medical practice. As such, NHF believes there are no amounts payable to the medical practice or its creditors. There has been no change to the status of this case since 30 June 2023.

NHF is involved with litigation that was commenced in Illinois in 2023. The proceeding relates to rights granted to NHF's affiliate to manage receivables authorised by the medical provider. The proceeding is being defended as legal and proper according to contract. NHF also has an indemnity clause with the medical provider. As such, NHF believes there are no amounts payable to the moving party. NHF filed a motion to dismiss that is set to be heard on or around 20 December 2023.

NHF was involved with litigation that was commenced in Oklahoma in 2019. The proceedings related to a patient of a medical provider that sold various receivables to NHF. The proceeding was being defended as the lien is a legal contract, binding upon the patient. NHF also has an indemnity clause with the medical provider. The matter was dismissed and closed on 8 February 2023 with no amounts payable by NHF.

NHF was involved in two separate proceedings (litigation) that were commenced in Michigan in 2020 and 2021. The proceedings relate to a RICO action, which has become a common tactic alleging numerous and widespread allegations of misrepresentation in an effort to eliminate provider claims. The proceedings were defended as having no basis in fact or proof, as NHF is not a medical provider of care. Both matters were dismissed and closed in 2023 with no amounts payable by NHF.

NHF received a lawsuit in Arizona in 2023, however the Company believed the action to be frivolous and not filed in accordance with applicable laws. The Court summarily dismissed the action on 14 July 2023.

As detailed in note 14 regarding the Efficient Frontier Investing debt facility NHF breached the LVR Financial Covenant as at 31 March 2023 when it was first tested following expiry of the Covenant Testing Holiday. 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). At this time, EFI have not issued a default notice for prior LVR breaches or charge default interest. The EFI loan balances, in this report loan 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, however we are not in a position to estimate any applicable default interest as at 30 June 2023 as any contingent liability requires EFI to impose default interest and undertake a retrospective assessment of when the LVR covenant was first breached.

Note 19. Events after the reporting period

The Funder acquired a portion of SAF facility debt from the only SAF Lender who had not provided the Company with indication that they would support the Funding Transaction. This SAF debt trade was announced on 14 July 2023, and is referred to in the Directors' report and further detailed in note 14. This debt trade had the impact of reducing the total amount of funding to be provided to the Company's US Subsidiaries by $200,000 and has also cleared the way for the Company to continue to progress negotiations to satisfy the SAF Restructuring Condition as well as the other conditions to the Funding Transaction.

The Company is currently progressing negotiation of legal agreements aimed at achieving binding conditional restructuring agreements in respect of the LAW Restructure Conditions, referred to in the Directors' Report. Upon achieving this the Directors intend to convene a meeting of Shareholders of the Company to seek shareholder approval for the Funding Transaction.

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the financial half-year ended on that date; and

- as referred in note 2, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Tim Storey
Chairman

13 September 2023
Sydney

PO Box 1908
West Perth WA 6872
Australia

Level 2, 40 Kings Park Road
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF LAWFINANCE LIMITED

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of LawFinance Limited, which comprises the consolidated statement of financial position as at 30 June 2023 the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the half-year ended on that date, condensed notes comprising a summary of statement of significant accounting policies and other explanatory information, and the directors' declaration for LawFinance Limited (the Consolidated entity). The consolidated entity comprises both LawFinance Limited (the Company) and the entities it controlled during the half year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of LawFinance Limited is not in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the Consolidated entity's financial position as at 30 June 2023 and of its performance for the half-year ended on that date; and
(b) complying with Accounting Standards AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our review of the interim financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001 which has been given to the directors of the Consolidated entity, would be in the same terms if given to the directors as at the time of this auditor's review report.

Stantons

Material Uncertainty regarding Going Concern

As described in note 2 to the financial report, the financial statements have been prepared on a going concern basis of accounting. At 30 June 2023. the consolidated entity had working capital deficiency of US$47,424,000 (31 December 2022 deficiency of US$44,272,00), cash and cash equivalents of US$745,000 (31 December 2022 US$1,460,000) and had incurred a loss before tax for the period amounting to US$4,678,000 (30 June 2022 US$4,840,000). The consolidated entity had an operating cash outflow of $671,000 for the period ending 30 June 2023 (30 June 2022 $5,613,000). As at 30 June 2023 the main financing facilities of the entity as described in note 14 of the financial statements are in default and classified as current.

As described in note 2 of the financial statements subsequent to year end the company raised $ 750,000 as part of its “Funding Transaction” which also includes a term sheet to raise a further $2.35m which is conditional. The consolidated entity intends to use this funding to complete it strategic priorities as outlined in the directors’ report and note 2 of the financial statements.

The ability of the consolidated entity to continue as a going concern is subject to collecting its outstanding medical lien receivables books in accordance with its budgeted cashflows, rectify the various breaches of loan covenants, completing the restructuring of its balance sheet including the raising of entire $2.35m from its Committed CCN funding offer. The company also needs to complete is strategic priorities as outlined in note 2 of the financial statements.

In the event that, the consolidated entity does not successfully in these objectives the consolidated entity may not be able to meet its liabilities as and when they fall due.

Emphasis of Matter - Carrying value of Financial Assets

In particular. we draw your attention to note 9 (Financial assets at amortised cost USA) of the financial report which discloses the carrying value of the financial assets at amortised cost of US$14,453,000 (31 December 2022: US$17,866,000). These financial assets may be significantly impaired if the recapitalisation plans of the group as outlined in note 2 are not completed or the collections are not in accordance with the estimates used by management in the preparation of the interim financial report.

Directors’ Responsibility for the Half-Year Financial Report

The directors of LawFinance Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Stantons

Auditor's Responsibility for the review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Consolidated entity's financial position as at 30 June 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(An Authorised Audit Company)

Stantons International Audit and Consulting Pty Ltd
Samir

Samir Tirodkar
Director

West Perth, Western Australia
13 September 2023