



Annual
Report
2021

 LAWFINANCE

ABN 72 088 749 008

LawFinance Limited

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Annual Report - 31 December 2021

LawFinance Limited
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31 December 2021

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LawFinance Limited
Corporate directory
31 December 2021

Directors	Tim Storey - Non-Executive Chairman Daniel Kleijn - Executive Director, Managing Director Anthony Murphy - Non-Executive Director David Wattel - Non-Executive Director
Company secretary	Andrew Palfreyman
Registered office	Suite 335 49-51 Queens Road Five Dock NSW 2046 Tel: +61 2 9696 0220 Fax: +61 2 9252 3430
Principal place of business in Australia	Suite 335 49-51 Queens Road Five Dock NSW 2046 Tel: +61 2 9696 0220 Fax: +61 2 9252 3430
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
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

Corporate Governance Statement The directors and management are committed to conducting the business of LawFinance Limited in an ethical manner and in accordance with the highest standards of corporate governance. LawFinance Limited has adopted and substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations.

The Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, was approved by the Board of Directors at the same time as the Annual Report and can be found at <http://www.lawfinance.com.au/investorcentre/governance/>

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 year ended 31 December 2021.

Directors

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

Tim Storey
Anthony Murphy
David Wattel
Daniel Kleijn
Jane Lamming (appointed on 1 September 2021 and resigned on 1 March 2022)

Review of operations

(i) 2021 a recovery and transition year

Last year was very much a transition year for LAW and a story of two halves. To use a sporting analogy (rugby) the first half was not attractive as the LAW forward pack battled to defend their line, improve ball retention, and steadily gain field position. In the second half the backline started to receive the ball with some room to move and created opportunities which showed the team what is possible for the business and their loyal supporters next season.

At the start of 2021, LAW was in significant financial distress which had been amplified by the operational impacts of the global COVID-19 pandemic. New leadership focused on stabilising the business and developing strategic priorities and turnaround plans that would make LAW financially viable and create value for shareholders.

The restructure and capital raise, successfully completed in May 2021, reset the Group's balance sheet and debt funding lines. This process set the foundation for LAW to implement its strategic value creation plan in the second half of the year. LAW's strategic value creation plan included a dramatic simplification of group operations to focus on profitably growing its US Medical Lien Funding business, National Health Finance ('NHF') headquartered in the United States (Arizona) to create value for shareholders.

Key activities that were successfully implemented in the first half of 2021, with broad support from LAW's key stakeholders including, lenders, shareholders, employees, and the board of directors included:

- (1) Disposal of its non-core Australian businesses (Disbursement Funding and Litigation Funding)
- (2) Converted A\$55 million of Group debt to equity in LAW
- (3) Raised A\$21 million of fresh capital (comprising both debt and equity)
- (4) Reduced the operating cost base of the Group

In the second half of 2021, the Company focused exclusively on transforming and growing its NHF business.

(ii) US Medical Lien Funding Operations (NHF business)

From June 2021, for the first time in some 18 months, NHF was appropriately funded including having a new asset backed loan facility to fund new originations of medical lien claims (the Partners for Growth facility) which allowed NHF to actively re-enter the US market to fund medical lien claims.

Progress to restore prior funding relationships with US Medical Service Providers was slower than expected. However, by the end of the year the NHF business was starting to hit its stride. December 2021 was the strongest month of the year for originations, which were largely driven by new relationships developed by NHF in the second half of the year. NHF also started to see some of its former funding customers slowly returning to NHF.

Significant progress was made on the Company's strategic priority to expand funding of medical lien claims emanating from hospital emergency rooms. As announced on 22 December 2021 the Company executed definitive agreements with one of the largest hospital systems in the state of Indiana to implement National Health Finance's ER Concierge programme. While implementation of operations at the two hospitals have progressed slower than expected due to the hospitals' operational priorities stemming from COVID-19 impacts, management are looking forward to these new hospitals reaching expectations in 2022.

The Trident Joint Venture outlined in the Company's 2021 Financial Results presentation dated 28 February 2022 has the potential to rapidly transform the Company's funding of medical lien claims emanating from hospital emergency rooms, that are currently funded by the US Governments Medicare and Medicaid programs. The Board is particularly optimistic about the Trident model which will support hospitals to become compliant with the US Affordable Health Care Act ('Obamacare') and allow the business to expand its addressable market exponentially.

Despite this positive progress, discrete portions of NHF's claim portfolios were identified as being higher risk of successful realisation ('higher risk claims'). Significant management time and effort in conjunction with the Company's legal advisors and financiers has been spent, in the second half of 2021, in understanding the higher risk claims, underlying causes, developing plans and implementing initiatives to maximise value recoverable from the higher risk portions of the portfolio. Plans developed to address these higher risk claims were being implemented at the end of 2021, however management is optimistic that positive outcomes can be achieved in 2022. The Directors are confident that policies and procedures are in place to prevent similar issues recurring and that the value of these higher risk claims have been appropriately estimated and valued in the Balance Sheet as at 31 December 2021.

These higher risk claims, relate to certain claims originated around the time of the Company's acquisition of NHF in 2018, prior to when the Company's former management significantly enhanced NHF's underwriting policies and procedures (in 2018/19). In addition, Michigan implemented a law change in July 2021, relating to motor vehicle accident ('MVA') healthcare costs which impacted the financial viability of medical service providers in continuing to treat victims of MVAs on a medical lien basis. This placed financial stress on the medical service providers which NHF has purchased claims from in the past, leading to certain medical providers breaching terms of their funding arrangements with NHF.

Work done in the second half of 2021 to re-organise the business, address issues of the past, develop new relationships and expand its product offerings to cater for the changing landscape and needs of US Medical Service Providers in the Personal Injury space have ensured that we ended the year with momentum. This momentum has continued in the first 3 months of 2022 as outlined in the 2021 Financial Results investor presentation dated 28 February 2022.

The Board considers that the hard work in 2021 has positioned the NHF business well to capitalise on the opportunity in 2022, which has been afforded to it, by its very supportive stakeholder base.

The broader economic and business environment in the United States has settled into a new normal post the dramatic impacts of COVID-19 but now is experiencing rising costs for medical service providers. This is expected to increase the demand for medical lien funding services in 2022, as medical service providers look for ways to unlock value in their businesses and release cash to fund operations.

Nature of operations and principal activities

During the financial year the principal activities of the Group consisted of:

- Medical lien funding;
- Disbursement funding up until LAW ceased to control the business on 30 April 2021; and
- Litigation funding, up until the completion of its sale on 24 June 2021.

Medical lien funding

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 within 37 months; and
- an appropriate amount for the medical lien is paid from each case settlement. On average NHF collects around 48% of the face value of a medical lien when the applicable case concludes.

In any given financial year, 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.

Disbursement funding

The disbursement funding division (JustKapital Finance) was operated in Australia by LAW's wholly owned subsidiary JustKapital Financing Pty Ltd ('JKF'). As announced on 30 April 2021, 'Update on Conditions and JustKapital Financing' LAW transferred control and collection responsibilities for the JKF book to an external collection agent appointed by its secured lenders Assetsecure Pty Ltd ('Assetsecure'). JKF's directors also appointed Martin Walsh as the Voluntary Administrator of JKF. Martin was subsequently appointed as Liquidator of JKF on 4 June 2021.

The JKF business operations and balance sheet were deconsolidated from the Group's accounts as at 30 April 2021.

LAW and Assetsecure reached an agreement whereby LAW will pay c.US\$63,000 per month for 12 months to conclude on 30 May 2022 and US\$780,000 by 1 July 2022 in full satisfaction of its potential corporate guarantee exposure relating to the Assetsecure receivables purchase agreement with JKF.

JustKapital Finance provided finance to law firms to fund the legal disbursements required to progress the claims of their clients and which the client generally cannot fund themselves. The deferred payment structure offered by JustKapital Finance addressed the immediate and growing demand where the client or firm cannot, or may not be willing to, fund disbursements directly.

Litigation funding

During the 2018 financial year the Board resolved to exit the litigation funding division. The litigation funding division is capital intensive which had stretched the Group's working capital resources. Therefore, the Board determined that the best use of the Group's limited resources was to invest in its core US medical lien funding business.

On 24 June 2021, the sale of JustKapital Litigation Pty Ltd (and its subsidiaries) ('JKL') to Legal Equity Partners Pty Limited ('LEP') completed. The transaction was considered fair and reasonable in an Independent Expert's Report prepared by Grant Thornton and was subsequently approved by shareholders at the Annual General Meeting on 25 May 2021. JKL was sold for A\$1, plus conditional proceeds equal to

- 50% of the net proceeds received from one of the funded cases; and
- 75% of any excess proceeds after repayment of the secured debt.

For the purposes of financial reporting, management has calculated the value of the conditional component of the sales proceeds to have nil value. LAW is receiving updates and information from LEP, in accordance with the sale terms in order to monitor the progress of outstanding litigation cases, which enables management to estimate the value of the conditional component of the sales proceeds as cases proceed.

The litigation funding operations and the balance sheets attributable to JKL and its subsidiaries were deconsolidated from the Group's accounts as at 24 June 2021 when the sale to LEP completed.

Dividends

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

Significant changes in the state of affairs

As detailed above LAW ceased to control the JustKapital Finance business and sold the Litigation Funding businesses which were deconsolidated from the Group's financial accounts on 30 April 2021 and 24 June 2021 respectively. In addition, a number of material recapitalisation and funding initiatives were successfully implemented as part of the Group's strategic turnaround plans.

Refinanced 'Front Book' secured finance facility

In late May 2021, the Group refinanced its existing Front Book facility provided by Atalaya Capital Management ('Atalaya') with a new facility with Partners for Growth VI, LP ('PFG'). Management consider the PFG facility to be more strategically aligned with its growth plans and business than the Atalaya facility.

The loan facility of US\$30 million was established on 14 April 2021 and is available to fund the US medical lien funding business. The facility has the capacity to be increased in stages to US\$70 million based on certain conditions and criteria set by PFG. The interest and fees payable under the drawn down facility total 11.25% per annum and the line fee is 0.5%. The term of the facility is an initial three years to draw with an amortisation year in the fourth year and the maturity date being the fourth anniversary of the date of the initial drawdown.

The new funding relationship with PFG has strengthened over the second half of the year and the funding process has been efficient with up to two funding requests being processed per month. PFG has proved to be a very supportive and flexible funding partner.

Raised new capital

As announced in May and June 2021 the Company raised a total of A\$18 million via an A\$17.2 million share placement ('Placement'), as announced on 28 May 2021 ('Completion of Restructure and Capital Raising') and a subsequent A\$0.8 million raised via a Share Purchase Plan ('SPP'). Under both the Placement and the SPP, fully paid ordinary shares in the Company were issued to investors ('Shares') at the issue prices of A\$1.30 and A\$0.92 per share (on a post-share consolidation basis), respectively.

In addition to this new equity funding, an A\$3 million new debt facility was raised in May 2021, prior to completion of the Placement, by one of the Group's existing Lenders ('Bridging Loan'). This Bridging Loan was subsequently restructured along with the Group's Syndicated Acquisition Facility ('SAF') as detailed below.

In total A\$21 million of new capital was raised for reinvestment into LAW and the NHF business.

Restructured corporate secured and unsecured debt facilities

At the end of May 2021, following shareholder approval at the Annual General Meeting on 25 May 2021, the Company completed a five-month consensual process with more than 40 secured and unsecured lenders, to convert some US\$42 million (A\$55 million) from debt-to-equity in LAW at an average price of A\$0.037 per ordinary share (on a pre-share consolidation basis).

Of the debt converted to equity, US\$27 million (c.A\$36 million) related to the lenders in the Syndicated Acquisition Facility ('SAF'), who converted a portion of their outstanding debt to equity. The balance of the SAF debt in the amount of US\$15.6 million (A\$20.8 million) was restructured via an amendment and restatement of the facility terms, including as follows:

- Interest rate reduced from 13.6% p.a. to 9.5% p.a.;
- Ability to capitalise interest payments until May 2024; and
- Deferring the repayment date to May 2025 for A\$0.825 million (Tranche 2) and to May 2026 for A\$20 million (Tranche 1).

In addition to the restructured SAF debt, the US\$2.253 million (A\$3 million) Bridging Loan (detailed above under the heading Raised new capital), was also restructured on the same terms as the Tranche 2 SAF debt. Accordingly, the total Tranche 2 of the SAF debt is now US\$2.854 million (A\$3.825 million).

While the debt holders converted A\$55 million of debt-to-equity at an average price of A\$0.037 per ordinary share (on a pre-share consolidation basis), management have assessed the fair value of the shares at the time of the restructure at A\$0.021 per ordinary share. This was the market price of the shares as at the date of announcement to the market, and immediately prior to commencing the trading halt.

Share consolidation

The Company undertook a 100-for-1 share consolidation on 9 June 2021 following shareholder approval at the AGM on 25 May 2021.

Other than those set out in this report, there were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

The Board has subsequently approved to pay up to 50% of the potential STI to Daniel Kleijn, Phil Smith, Richard Cruz and Marialena Ziska and no LTI. The board has based the remuneration on achieving the KPI of successfully restructuring and recapitalising the group, and progress made towards the KPI of achieving phase one of the group's turnaround plan.

Apart from matters as disclosed in this report and in note 35, no other matter or circumstance has arisen since 31 December 2021 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.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Tim Storey
Title:	Non-Executive Chairman, Non-Executive Director
Experience and expertise:	Tim holds a number of directorships in various private and public companies. He is a barrister and solicitor and was a partner at one of New Zealand's premier law firms through to 2006 and has practised in both Australia and New Zealand, focusing on corporate, commercial and property transactions. He is a member of the Institute of Directors (NZ) and the Financial Services Institute of Australasia.
Other current directorships:	Chairman of Stride Property Group (NZX: SPG) and Director of Investore Property Limited (NZX: IPL).
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Remuneration and Nominations Committee and Chairman of the Audit and Risk Committee
Interests in shares:	148,634 ordinary shares
Interests in options:	Nil options/warrants over ordinary shares
Interests in rights:	Nil performance rights over ordinary shares
Name:	Anthony Murphy
Title:	Non-Executive Director
Experience and expertise:	Anthony is the Chief Executive Officer of Lucerne Investment Partners and is responsible for overseeing and leading both Group strategy and ongoing management at Lucerne Investment Partners. Anthony founded and led the Australian Wealth Management business at Canaccord Genuity – a global investment bank. Anthony holds a Bachelor of Economics and Bachelor of Commerce degrees from Australian National University.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Remuneration and Nominations Committee and member of the Audit and Risk Committee
Interests in shares:	796,322 ordinary shares
Interests in options:	142,800 warrants over ordinary shares
Interests in rights:	Nil performance rights over ordinary shares

LawFinance Limited
Directors' report
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Name: David Wattel
Title: Non-Executive Director
Experience and expertise: David graduated from the University of Illinois in 1984 with a degree in economics before obtaining his Juris Doctor (JD) in 1988 from Arizona State University College of Law. He has practiced personal injury law ever since graduating. He founded Wattel & York - a multi-state personal injury and medical malpractice law firm. He speaks at numerous conferences in the area on personal injury and litigation. David has been actively managing and overseeing the growth of NHF.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: 1,075,488 ordinary shares
Interests in options: 237,500 options over ordinary shares; 614,319 warrants over ordinary shares
Interests in rights: Nil performance rights over ordinary shares

Name: Daniel Kleijn
Title: Chief Executive Officer, Managing Director
Experience and expertise: Prior to joining LawFinance Limited, Daniel was a Managing Director at Lazard and UBS. Daniel has a Master of Economics from the University of Groningen in the Netherlands and is a mentor to CEOs of charities.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: 52,000 ordinary shares
Interests in options: 916,667 options over ordinary shares
Interests in rights: Nil performance rights over ordinary shares

Name: Jane Lamming (appointed on 1 September 2021 and resigned on 1 March 2022)
Title: Former Non-Executive Director
Experience and expertise: Jane Lamming is General Counsel and Chief Compliance Officer of Ausbil Investment Management Limited. Ms Lamming brought a deep understanding of legal, compliance, AML and risk and governance issues, developed from over 20 years' experience of holding senior roles in financial services organisations covering global markets, investment banking and asset management. Ms Lamming has a Bachelor of Laws/Bachelor of Arts (Hons) from the University of Sydney.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Former Chairman of the Audit and Risk Committee
Interests in shares: Not applicable as no longer a director
Interests in options: Not applicable as no longer a director
Interests in rights: Not applicable as no longer a director

'Other current directorships' quoted above are current directorships for listed entities only and exclude directorships of all other types of entities unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and exclude directorships of all other types of entities unless otherwise stated.

Company secretary

Andrew Palfreyman was appointed Company Secretary on 18 February 2021. Andrew is a corporate lawyer and company secretary within the Automic Group, a professional services company providing company secretarial, legal, registry and accounting services to Australian entities. He provides legal counsel, company secretarial and corporate compliance advice to listed and private companies. He was admitted to the Supreme Court of NSW as a practising solicitor in 2018.

The previous Company Secretary was Dean Jagger who resigned from the position on 18 February 2021.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 December 2021, and the number of meetings attended by each director was:

	Full Board Attended	Full Board Held
Tim Storey	10	10
Anthony Murphy	10	10
David Wattel	8	10
Daniel Kleijn	10	10
Jane Lamming	2	2

Held: represents the number of meetings held during the time the Director held office. In addition to formal board meetings held, the Board has regular conferences that have not been designated formal board meetings.

The Audit and Risk Committee and Remuneration Committee meetings were combined with Board meetings as detailed above.

Remuneration report (audited)

The remuneration report details the key management personnel ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMPs are those persons having authority and responsibility for planning, directing and controlling the activities of the relevant entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- General performance and link to remuneration policy
- Additional disclosures relating to KMPs

Details of the KMPs

The KMPs comprise of the following directors and other senior executives of the Group.

Name	Title
<i>Non-Executive Directors</i>	
Tim Storey	Non-Executive Chairman, Non-Executive Director
Anthony Murphy	Non-Executive Director
David Wattel	Non-Executive Director
Jane Lamming	Former Non-Executive Director (appointed 1 September 2021 and resigned on 1 March 2022)
<i>Executive Directors</i>	
Daniel Kleijn	Chief Executive Officer, Managing Director
<i>Senior Executives</i>	
Phil Smith	Chief Financial Officer
Richard Cruz	President and General Counsel - NHF
Marialena Ziska	Chief Revenue Officer - NHF
Anthony Hersch	Former Chief Operating Officer (resigned on 13 December 2021)
Craig Beaton	Former Head of Reporting and Compliance (resigned on 13 September 2021)

Principles used to determine the nature and amount of remuneration

Remuneration & Nominations Committee ('R&NC')

Due to the size and composition of the Board, the responsibilities of the R&NC continued to be performed by the full Board during the financial year ended 31 December 2021. Therefore, during the financial year ended 31 December 2021, the Board was responsible for the following in relation to the remuneration policy and practices of the Group:

- determining and reviewing remuneration arrangements for the Board and senior executives; and
- assessing the appropriateness of the nature and amount of the emoluments of the directors and senior executives by reference to relevant employment market conditions, with the overall objective of ensuring the best stakeholder benefit from the Board and executive team.

Remuneration policy

The remuneration policy of the Group has been designed to align KMP objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific short-term and long-term incentives based on key performance areas affecting the Group's financial results.

During the financial year ended 31 December 2021, the Board's policy for determining the nature and amount of remuneration for KMP of the Group was approved by the Board prior to the financial year ended 31 December 2021. This is detailed below:

- senior executives receive a fixed remuneration component;
- senior executives may receive a variable remuneration component via performance incentives;
- performance incentives are paid once predetermined key performance indicators ('KPIs') have been met;
- incentives paid in the form of options or rights are intended to align the interests of the Group and senior executives with those of the shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means; and
- senior executive packages are reviewed annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

Use of remuneration consultants

During the financial year ended 31 December 2021, the Board did not engage a remuneration consultant to review and advise on KMP remuneration, for both directors and senior executives. As a result, no fees were paid to an external remuneration consultant during the financial year.

Non-executive directors remuneration

Non-executive directors' fees and payments are reviewed annually. Usually, this review will be undertaken by the R&NC, however due to the current structure of the Board, this responsibility has currently moved to the Board. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors may be offered the opportunity, and encouraged, to participate in the Group's equity plan arrangements to align their interests with shareholder interests.

Non-executive directors fees

Role	US\$
Chairman	34,859
Non-executive director	20,231

ASX listing rules require the aggregate non-executive director remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 30 November 2011, where the shareholders approved a maximum annual aggregate remuneration of US\$224,096 (A\$300,000).

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components. The executive remuneration and reward framework has the following components:

Fixed remuneration

Fixed compensation, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the Board. Fixed remuneration is determined after review of Group and individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

Variable remuneration

The objective of the variable compensation incentive is to reward executives in a manner that aligns this element of their compensation with the objectives and internal KPIs of the Group. The total potential incentive available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

The variable component is delivered in two parts:

a) Short-Term Incentive Plan ('STIP')

The STIP is a discretionary annual bonus payment available to participants who are senior executives of the Company and is based on a percentage (up to 75% for the financial year ended 31 December 2021) of the senior executive participant's total fixed remuneration ('TFR'), payable in cash or ordinary shares of the Company at the discretion of the Board.

The purpose of the STIP component is to provide an annual 'at risk' incentive to senior executive participants that is linked to the achievement of specific financial and non-financial objectives. Participants are eligible to participate in the STIP from the beginning of each financial year, which is also when financial and non-financial performance objectives are set for each Executive Participant. At the end of the financial year, the financial objectives are reassessed for the following financial year and may include stretch targets where the Board thinks this is consistent with enhancing Total Shareholders Return ('TSR').

b) Long-Term Incentive Plan ('LTIP')

The LTIP is a discretionary bonus available to directors and senior executives and complements the STIP. The LTIP encourages equity ownership and gives participants the opportunity to be rewarded for shareholder value creation.

The LTIP comprises any one, or combination, of the following:

- (i) options;
- (ii) performance rights (or, in certain circumstances, a cash payment in lieu of shares); and/or
- (iii) plan loan under the Loan Agreement (for the purpose of funding the issue price of the shares offered).

Voting and comments made at the Company's 2021 Annual General Meeting ('AGM')

At the 2021 AGM held on 25 May 2021, 99.98% of the votes received supported the adoption of the remuneration report for the financial year ended 31 December 2020.

Details of remuneration

Amounts of remuneration

Remuneration for the year 1 January 2021 to 31 December 2021.

31 Dec 2021	Short-term benefits		Post-employment benefits		Long-term benefits	Share-based payments		Total US\$
	Salary and fees US\$	Non-monetary US\$	Super-annuation US\$	Termination benefits US\$	Long service leave US\$	Shares US\$	Options US\$	
<i>Executive Directors:</i>								
Daniel Kleijn	410,843	-	18,675	-	-	24,277	62,552	516,347
<i>Non-Executive Directors:</i>								
Tim Storey ⁽¹⁾	34,859	-	-	-	-	-	-	34,859
Anthony Murphy ⁽²⁾	3,370	-	4,411	-	-	-	-	7,781
Jane Lamming ⁽⁴⁾	11,318	-	1,132	-	-	-	-	12,450
David Wattel ⁽⁶⁾	-	-	-	-	-	-	-	-
<i>Other KMP:</i>								
Phil Smith	204,142	-	19,954	-	-	-	37,565	261,661
Richard Cruz ⁽³⁾	233,364	6,739	11,668	-	-	-	37,565	289,336
Marialena Ziska ⁽³⁾	142,063	117	7,103	-	-	-	22,539	171,822
Anthony Hersch ⁽⁵⁾	255,649	-	19,894	79,936	-	-	-	355,479
Craig Beaton ⁽⁵⁾	126,014	-	9,930	26,238	-	-	-	162,182
	<u>1,421,622</u>	<u>6,856</u>	<u>92,767</u>	<u>106,174</u>	<u>-</u>	<u>24,277</u>	<u>160,221</u>	<u>1,811,917</u>

(1) Prolex Limited, an entity associated with Tim Storey, was paid US\$72,209 (A\$96,666) for directors' fees (2020: A\$105,000). As a result of the restructure, US\$37,350 (A\$50,000) of remuneration owing from 2020 was foregone in the current year and offset against the current year's remuneration.

(2) Anthony was paid US\$49,799 (A\$66,667) during the current year. As a result of the restructure, US\$42,018 (A\$56,250) of remuneration owing from 2020 was foregone in the current year and offset the current year's remuneration.

(3) Non-monetary benefits include medical benefits.

(4) Represents remuneration from 1 September 2021 to 31 December 2021.

(5) Represents remuneration from 1 January 2021 to date of resignation.

(6) David forgave receipt of his salary for the year ended 31 December 2021.

Remuneration for the year 1 January 2020 to 31 December 2020.

31 Dec 2020	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments		Total US\$	
	Salary and fees US\$	Non-monetary US\$	Super-annuation US\$	Termination benefits US\$	Long service leave US\$	Shares US\$		Options US\$
<i>Executive Directors:</i>								
David Wattel ⁽¹⁾	201,266	-	-	-	-	-	-	201,266
Daniel Kleijn ⁽²⁾	22,447	-	1,021	-	-	-	-	23,468
Diane Jones ⁽³⁾	365,070	-	14,494	-	-	-	-	379,564
<i>Non-Executive Directors:</i>								
Tim Storey ⁽⁴⁾	72,462	-	-	-	-	-	-	72,462
Anthony Murphy ⁽⁵⁾	47,268	-	4,491	-	-	-	-	51,759
<i>Other KMP:</i>								
Anthony Hersch	251,201	-	14,494	-	-	-	-	265,695
Phil Smith ⁽⁶⁾	11,182	-	1,062	-	-	-	-	12,244
Craig Beaton	156,210	-	14,594	-	-	-	-	170,804
Sarika Merchant ⁽⁷⁾	284,454	-	-	-	-	-	-	284,454
Richard Cruz	263,215	-	-	-	-	-	-	263,215
	1,674,775	-	50,156	-	-	-	-	1,724,931

- (1) Represents remuneration from 1 January 2020 to 1 December 2020. David resigned as an Executive Director on 1 December 2020 but continues as a Non-Executive Director. He was not paid any Directors Fees as a Non-Executive Director during the year ended 31 December 2020.
- (2) Represents remuneration from 8 December 2020 to 31 December 2020.
- (3) Represents remuneration from 1 January 2020 to 31 December 2020. Diane resigned as Chief Executive Officer and Executive Director on 8 December 2020 and is currently serving out her Notice Period to 30 June 2021.
- (4) Prolex Limited, an entity associated with Tim Storey, was paid US\$72,462 (A\$105,000) for directors' fees. A\$50,000 of these directors' fees have been accrued and are yet to be paid.
- (5) Of the total of US\$51,759 (A\$75,000), A\$56,250 has been accrued and is yet to be paid.
- (6) Represents remuneration from 8 December 2020 to 31 December 2020.
- (7) Represents remuneration as Chief Financial Officer – NHF from 1 January 2020 to 31 July 2020 of US\$217,977 and remuneration as a consultant (charged on an hourly basis) from 1 August 2020 to 31 December 2020 of US\$66,477.

LawFinance Limited
Directors' report
31 December 2021

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		Performance related - STIP		Performance related - LTIP	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
<i>Executive Directors:</i>						
David Wattel (up to 1 December 2020)	-	100%	-	-	-	-
Daniel Kleijn	84%	100%	-	-	16%	-
<i>Non-executive Directors:</i>						
Tim Storey	100%	100%	-	-	-	-
Anthony Murphy	100%	100%	-	-	-	-
Jane Lamming	100%	-	-	-	-	-
<i>Other KMP:</i>						
Phil Smith	86%	100%	-	-	14%	-
Richard Cruz	87%	100%	-	-	13%	-
Marialena Ziska	87%	100%	-	-	13%	-
Anthony Hersch	100%	100%	-	-	-	-
Craig Beatton	100%	100%	-	-	-	-

Service agreements

Remuneration and other terms of employment for KMP are formalised in service agreements. Details of these agreements are as follows:

Name:	Tim Storey
Title:	Non-Executive Chairman, Non-Executive Director
Agreement commenced:	1 April 2015
Term of agreement:	Ongoing
Details:	Tim is paid a gross salary of US\$59,759 (A\$80,000) per annum. Previously this was US\$78,434 (A\$105,000) until 31 August 2021. The reduction is part of an effort to align the interests of non-executive directors more closely to shareholders whereby the Board has agreed to reduce their fees by \$25,000 in return for 100,000 options with an exercise price of \$2.50 (subject to shareholder approval) as announced 31 August 2021.
Name:	Anthony Murphy
Title:	Non-Executive Director
Agreement commenced:	31 October 2017
Term of agreement:	Ongoing
Details:	Anthony is paid a gross salary of US\$37,349 (A\$50,000) per annum inclusive of superannuation. Previously this was US\$56,024 (A\$75,000) until 31 August 2021. The reduction is part of an effort to align the interests of non-executive directors more closely to shareholders whereby the Board has agreed to reduce their fees by \$25,000 in return for 100,000 options with an exercise price of \$2.50 (subject to shareholder approval) as announced 31 August 2021.
Name:	David Wattel
Title:	Non-Executive Director
Agreement commenced:	28 September 2018
Term of agreement:	Ongoing
Details:	During the year, David was not paid a salary and has decided to forego his salary in order for the business to succeed.

LawFinance Limited
Directors' report
31 December 2021

Name:	Daniel Kleijn
Title:	Chief Executive Officer, Managing Director
Agreement commenced:	8 December 2020
Term of agreement:	Ongoing
Details:	<p>Daniel is paid a gross salary of US\$429,518 (A\$575,000) per annum inclusive of superannuation. The required notice period is 6 months by either party.</p> <p>On the 25 May 2021, shareholders approved and granted 25,000 shares to the value of A\$32,500 in recognition of his appointment and contributions to the Company to date.</p> <p>Daniel will be eligible to participate in STI arrangements offered by LAW from time to time commencing in the 2021 financial (calendar) year. Daniel will be entitled to up to 75% of his fixed remuneration in the 2021 financial year.</p> <p>Daniel will be eligible to participate in LTI arrangements offered by LAW from time to time. Following shareholder approval on 25 May 2021 and completion of the Restructure and Capital Raising on 28 May 2021, Daniel has been granted options to acquire 916,667 LAW shares with a strike price of A\$2.50 and approximate value of US\$366,376 (A\$490,471). The options will vest 3 years from the date of grant and be exercisable for a 1 year period after they vest.</p>
Name:	Jane Lamming (appointed on 1 September 2021 and resigned on 1 March 2022)
Title:	Former Non-Executive Director
Agreement commenced:	1 September 2021
Term of agreement:	Not applicable
Details:	Jane was paid a gross salary of US\$37,349 (A\$50,000) per annum inclusive of superannuation.
Name:	Anthony Hersch (resigned on 13 December 2021)
Title:	Chief Operating Officer
Agreement commenced:	18 April 2016
Term of agreement:	Not applicable
Details:	Anthony was paid a gross salary of US\$224,096 (A\$300,000) per annum inclusive of superannuation.
Name:	Phil Smith
Title:	Chief Financial Officer
Agreement commenced:	8 December 2020
Term of agreement:	Ongoing
Details:	<p>Phil is paid a gross salary of US\$224,096 (A\$300,000) per annum inclusive of superannuation. The required notice period is 3 months by the Company or 6 months by the employee.</p> <p>Phil will be eligible to participate in STI arrangements offered by LAW from time to time commencing in the 2021 financial (calendar) year. Phil will be entitled to up to 75% of his fixed remuneration in the 2021 financial year.</p> <p>Phil will be eligible to participate in LTI arrangements offered by LAW from time to time. Upon joining LAW, Phil has been granted options to acquire 500,000 LAW shares with a strike price of A\$2.50 and approximate value of US\$160,994 (A\$215,525). The options will vest on 8 December 2023 from the date of grant and be exercisable for a 1 year period after they vest.</p>
Name:	Craig Beatton (resigned on 13 September 2021)
Title:	Former Head of Reporting & Compliance
Agreement commenced:	12 September 2016
Term of agreement:	Not applicable
Details:	Craig was paid a gross salary of US\$149,397 (A\$200,000) per annum inclusive of superannuation.

LawFinance Limited
Directors' report
31 December 2021

Name: Richard Cruz
Title: President and General Counsel - NHF
Agreement commenced: No signed agreement is in place, commenced employment 25 April 2016.
Term of agreement: No agreement is in place and the employment relationship is governed by general Arizonian law.
Details: Richard is paid an annual salary of US\$236,900 per annum. There is no notice period required by either party. Richard has been granted options to acquire 500,000 LAW shares with a strike price of A\$2.50. The options will vest on 8 December 2023 from the date of grant and be exercisable for a 1 year period after they vest.

Name: Marialena Ziska
Title: Chief Revenue Officer - NHF
Agreement commenced: 3 June 2019
Term of agreement: No agreement is in place and the employment relationship is governed by general Arizonian law.
Details: Marialena is paid an annual salary of US\$160,000 per annum. There is no notice period required by either party. Marialena has been granted options to acquire 300,000 LAW shares with a strike price of A\$2.50. The options will vest on 8 December 2023 from the date of grant and be exercisable for a 1 year period after they vest.

KMPs have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2021 are set out below:

Name	Issue date	Shares*	Issue price	Value of shares issued US\$
Daniel Kleijn	02/06/2021	25,000	US\$0.0000	24,277

* 2,500,000 shares (pre-consolidation) issued at \$nil consideration

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other KMP in this financial year or future reporting years are as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price*	Fair value per option at grant date
Daniel Kleijn	916,667	28/05/2021	19/11/2024	19/11/2025	US\$1.8670	US\$0.400
Phil Smith	500,000	18/06/2021	08/12/2023	08/12/2024	US\$1.8670	US\$0.322
Richard Cruz	500,000	18/06/2021	08/12/2023	08/12/2024	US\$1.8670	US\$0.322
Marialena Ziska	300,000	18/06/2021	08/12/2023	08/12/2024	US\$1.8670	US\$0.322

* Exercise price A\$2.50

Options granted carry no dividend or voting rights.

General performance and link to remuneration policy

The earnings of the Group for the five years to 31 December 2021 are summarised below:

	31 Dec 2021 US\$'000	31 Dec 2020 (restated) US\$'000	31 Dec 2019 (restated) US\$'000	31 Dec 2018 US\$'000	30 Jun 2018 US\$'000
Total revenue and other income	357	(7,519)	(656)	4,554	5,918
EBIT (excluding discontinued operations)	(10,495)	(35,054)	(9,910)	(8,619)	(1,594)
Loss after income tax	(21,229)	(78,136)	(23,256)	(11,548)	(5,142)

The factors that are considered to affect TSR are summarised below:

	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	30 Jun 2018
Share price at financial year end (A\$)	0.76	0.03	0.06	0.07	0.07
Basic loss per share (cents per share)	(73.31)	(867.89)	(4.70)	(4.60)	(3.68)
Diluted loss per share (cents per share)	(73.31)	(867.89)	(4.70)	(4.60)	(3.68)

Short-Term Incentive Plan

Financial year ended 31 December 2021 - STIP

There were no bonuses paid to KMPs during the current financial year.

Financial year ended 31 December 2020 - STIP

There were no bonuses paid to KMPs during the current financial year.

Long-Term Incentive Plan

Daniel Kleijn received 916,667 options with a strike price of A\$2.50 each vesting 3 years from the date of issue and expiring 4 years from the date of issue. Daniel was also issued 25,000 shares for \$nil consideration.

Phil Smith and Richard Cruz received 500,000 options each and Marialena Ziska received 300,000 options with a strike price of A\$2.50 each vesting 2.5 years from the date of issue and expiring 3.5 years from the date of issue.

There were no grants of equity under the LTIP during the financial year ended 31 December 2020.

Additional disclosures relating to KMPs

Shareholding

The number of ordinary shares in the Company held during the financial year by each director and other KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Additions	Share consolidation 100:1	Disposals/ other (i)	Balance at the end of the year
Tim Storey (ii)	7,263,315	7,600,000	(14,714,681)	-	148,634
Anthony Murphy (iii)	5,636,250	795,572	(5,579,887)	(55,613)	796,322
David Wattel	107,548,701	-	(106,473,213)	-	1,075,488
Diane Jones (i)	5,122,104	-	-	(5,122,104)	-
Anthony Hersch (i)	957,227	-	-	(957,227)	-
Craig Beaton (i)	100,000	-	-	(100,000)	-
Daniel Kleijn (iv)	-	5,200,000	(5,148,000)	-	52,000
	126,627,597	13,595,572	(131,915,781)	(6,234,944)	2,072,444

(i) shares held at the date of resignation

(ii) 7,600,000 shares acquired (pre-consolidation)

(iii) 790,572 shares acquired (post-consolidation) on conversion of debt to equity and 5,000 shares acquired (post-consolidation)

(iv) 2,500,000 shares granted (pre-consolidation) as part of remuneration and 2,700,000 shares (pre-consolidation) under placement

During the financial year ended 31 December 2021, there were no shares in the Company held by directors and other KMPs other than those disclosed in the table above.

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Share consolidation 100:1	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
David Wattel	35,750,000	-	(35,392,500)	(120,000)	237,500
Daniel Kleijn	-	916,667	-	-	916,667
Phil Smith	-	500,000	-	-	500,000
Richard Cruz	-	500,000	-	-	500,000
Marialena Ziska	-	300,000	-	-	300,000
	35,750,000	2,216,667	(35,392,500)	(120,000)	2,454,167

The details of the options granted during the financial year are set out below:

Grant date	Expiry date	Exercise price	Number
28/05/2021	19/11/2025	US\$1.867	916,667
18/06/2021	08/12/2024	US\$1.867	500,000
18/06/2021	08/12/2024	US\$1.867	500,000
18/06/2021	08/12/2024	US\$1.867	300,000
			2,216,667

The options were granted as part of an effort to align the interests of directors and KMP more closely to shareholders.

During the financial year ended 31 December 2021, there were no options over ordinary shares in the Company held by directors and KMP's other than those disclosed in the table above.

Warrants

The number of warrants over ordinary shares in the Company held during the financial year by each director and other KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Share con-solidation 100:1	Expired/ forfeited/ other	Balance at the end of the year
David Wattel	61,431,818	-	(60,817,499)	-	614,319
Anthony Murphy	14,280,000	-	(14,137,200)	-	142,800
	75,711,818	-	(74,954,699)	-	757,119

The grant date and expiry date of the warrants is 28 September 2018 and 8 November 2022 respectively.

The exercise price of the warrants is A\$13.50 (31 December 2020: A\$0.135). As a result of the capital raising and share consolidation undertaken, the exercise price of the warrants was adjusted in accordance with ASX Listing Rule 6.22.2.

During the financial year ended 31 December 2021, there were no warrants over ordinary shares in the Company held by directors and other KMPs other than those disclosed in the table above.

Other transactions with KMPs and their related parties

Lucerne Group manages funds on behalf of third parties. Anthony Murphy is the Chief Executive Officer of Lucerne Investment Partners, part of the Lucerne Group. Refer to note 30 for further details.

LawFinance Limited
Directors' report
31 December 2021

David Wattel is a director of Multus Medical LLC, a company that specialises in creating 3-Dimensional anatomical schematics from standardised MRI data. This company provides services to patients to assist in their personal injury insurance claims, and NHF funds the cost of these services. David is also a founding member of Wattel & York – Attorneys at Law, a personal injury and property damage law firm. Wattel & York have the carriage and conduct over a small number of personal injury matters where NHF holds a medical lien. Refer to note 30 for further details.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of LawFinance Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price*	Number under option
13/03/2020	28/09/2022	US\$29.8790	225,000
13/03/2020	28/09/2023	US\$44.8190	250,000
28/05/2021	19/11/2025	US\$1.8670	916,667
18/06/2021	08/12/2024	US\$1.8670	1,300,000
			2,691,667

* Exercise price - A\$40, A\$60, A\$2.50 and A\$2.50 respectively.

No person entitled to exercise the options had or has any right by virtue of the options to participate in any share issue of the Company or of any other body corporate.

Shares under warrants

Unissued ordinary shares of LawFinance Limited under warrants at the date of this report are as follows:

Grant date	Expiry date	Number under rights
28/09/2018*	08/11/2022	3,298,800
28/09/2018**	08/11/2022	1,228,638
28/05/2021***	28/05/2028	2
		4,527,440

The exercise price of the warrants issued on 28/09/2018 is US\$10.08 (A\$13.50) (31 December 2020: A\$0.135). As a result of the capital raising undertaken, the exercise price of the warrants was adjusted in accordance with ASX Listing Rule 6.22.2.

The exercise price of the warrants issued on 28/05/2021 is US\$3.29 (A\$4.40) (31 December 2020: NA).

* Warrants issued to other Syndicated Acquisition Facility participants

** Warrants issued to NHF Founders

*** Warrants issued to Partners for Growth

Shares issued on the exercise of options

There were no ordinary shares of LawFinance Limited issued on the exercise of options during the year ended 31 December 2021 and up to the date of this report.

Shares issued on the exercise of warrants

There were no ordinary shares of LawFinance Limited issued on the exercise of warrants during the year ended 31 December 2021 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 27 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former directors of Stantons International

There are no officers of the Company who are former directors of Stantons International.

Rounding of amounts

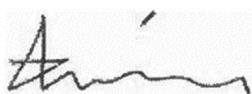
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain 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 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Tim Storey
Chairman

31 March 2022
Sydney

31 March 2022

Board of Directors
LawFinance Limited
Suite 335
49-51 Queens Road
Five Dock NSW 2046

Dear Directors

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 audit of the financial statements of LawFinance Limited for the year ended 31 December 2021, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

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 year ended 31 December 2021

	Note	Consolidated 31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
Revenue from continuing operations			
Net loss from medical lien funding	5	(3,079)	(9,311)
Other revenue	6	1,392	1,855
Total revenue		<u>(1,687)</u>	<u>(7,456)</u>
Non-supplier related cost of sales		(57)	(22)
Gross (loss)		<u>(1,744)</u>	<u>(7,478)</u>
Interest income		4	2
Foreign exchange gain		-	7
Expenses			
Impairment gain on financial liabilities	7	-	19,602
Employee benefits expense	7	(4,196)	(4,724)
Depreciation and amortisation expense	7	(349)	(470)
Impairment of assets	7	(75)	(38,307)
Administration and other expenses	7	(4,135)	(3,686)
Finance costs	7	<u>(11,474)</u>	<u>(15,010)</u>
Loss before income tax benefit/(expense) from continuing operations		(21,969)	(50,064)
Income tax benefit/(expense)	8	<u>1,528</u>	<u>(12,810)</u>
Loss after income tax benefit/(expense) from continuing operations		(20,441)	(62,874)
Loss after income tax expense from discontinued operations	9	<u>(788)</u>	<u>(15,262)</u>
Loss after income tax benefit/(expense) for the year		(21,229)	(78,136)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		1,977	(1,680)
Restructuring gain on debt to equity conversion	22	<u>18,910</u>	<u>-</u>
Other comprehensive income/(loss) for the year, net of tax		<u>20,887</u>	<u>(1,680)</u>
Total comprehensive loss for the year		<u>(342)</u>	<u>(79,816)</u>
Loss for the year is attributable to:			
Non-controlling interest		27	338
Owners of LawFinance Limited		<u>(21,256)</u>	<u>(78,474)</u>
		<u>(21,229)</u>	<u>(78,136)</u>

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

LawFinance Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2021

	Note	Consolidated 31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
Total comprehensive loss for the year is attributable to:			
Continuing operations		27	338
Discontinued operations		-	-
Non-controlling interest		<u>27</u>	<u>338</u>
Continuing operations		419	(64,892)
Discontinued operations	9	<u>(788)</u>	<u>(15,262)</u>
Owners of LawFinance Limited		<u>(369)</u>	<u>(80,154)</u>
		<u>(342)</u>	<u>(79,816)</u>
		Cents	Cents
Earnings per share for loss from continuing operations attributable to the owners of LawFinance Limited			
Basic loss per share	10	(70.59)	(699.10)
Diluted loss per share	10	(70.59)	(699.10)
Earnings per share for loss from discontinued operations attributable to the owners of LawFinance Limited			
Basic loss per share	10	(2.72)	(168.79)
Diluted loss per share	10	(2.72)	(168.79)
Earnings per share for loss attributable to the owners of LawFinance Limited			
Basic loss per share	10	(73.31)	(867.89)
Diluted loss per share	10	(73.31)	(867.89)

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

LawFinance Limited
Consolidated statement of financial position
As at 31 December 2021

	Note	Consolidated 31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
Assets			
Current assets			
Cash and cash equivalents	11	5,101	4,746
Financial assets at fair value through profit or loss - Australia	12	-	7,194
Financial assets at amortised cost - USA	13	12,372	15,239
Other receivables	14	979	831
Prepayments		293	118
		<u>18,745</u>	<u>28,128</u>
Assets held for sale	9	-	10,248
Total current assets		<u>18,745</u>	<u>38,376</u>
Non-current assets			
Financial assets at fair value through profit or loss - Australia	12	-	8,929
Financial assets at amortised cost - USA	13	29,070	38,014
Other receivables	14	15	5
Property, plant and equipment	15	106	91
Right-of-use assets	16	235	1,074
Intangibles	17	-	10
Total non-current assets		<u>29,426</u>	<u>48,123</u>
Total assets		<u>48,171</u>	<u>86,499</u>
Liabilities			
Current liabilities			
Trade and other payables	18	2,068	6,789
Borrowings	19	38,323	113,514
Lease liabilities		100	461
Employee benefits		177	287
		<u>40,668</u>	<u>121,051</u>
Liabilities directly associated with assets classified as held for sale	9	-	10,248
Total current liabilities		<u>40,668</u>	<u>131,299</u>
Non-current liabilities			
Borrowings	19	17,818	416
Lease liabilities		164	784
Provision for withholding tax		-	1,559
Total non-current liabilities		<u>17,982</u>	<u>2,759</u>
Total liabilities		<u>58,650</u>	<u>134,058</u>
Net liabilities		<u>(10,479)</u>	<u>(47,559)</u>
Equity			
Issued capital	20	97,626	61,310
Capitalising converting notes	21	14,832	13,933
Reserves	22	26,344	5,220
Accumulated losses		(148,816)	(127,560)
Deficiency attributable to the owners of LawFinance Limited		(10,014)	(47,097)
Non-controlling interest		(465)	(462)
Total deficiency		<u>(10,479)</u>	<u>(47,559)</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

LawFinance Limited
Consolidated statement of changes in equity
For the year ended 31 December 2021

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 2020	40,924	-	6,778	(49,086)	(1,128)	(2,512)
Profit/(loss) after income tax expense for the year	-	-	-	(78,474)	338	(78,136)
Other comprehensive loss for the year, net of tax	-	-	(1,680)	-	-	(1,680)
Total comprehensive income/(loss) for the year	-	-	(1,680)	(78,474)	338	(79,816)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs (note 20)	20,386	-	-	-	-	20,386
Distribution to non-controlling interest	-	-	-	-	328	328
Share-based payments	-	-	122	-	-	122
Capitalising converting notes (note 21)	-	13,933	-	-	-	13,933
Balance at 31 December 2020	<u>61,310</u>	<u>13,933</u>	<u>5,220</u>	<u>(127,560)</u>	<u>(462)</u>	<u>(47,559)</u>
Consolidated	Issued capital US\$'000	Capitalising converting notes US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Non- controlling interest US\$'000	Total deficiency US\$'000
Balance at 1 January 2021	61,310	13,933	5,220	(127,560)	(462)	(47,559)
Profit/(loss) after income tax benefit for the year	-	-	-	(21,256)	27	(21,229)
Other comprehensive income for the year, net of tax	-	-	20,887	-	-	20,887
Total comprehensive income/(loss) for the year	-	-	20,887	(21,256)	27	(342)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs (note 20)	36,316	-	-	-	-	36,316
Share-based payments	-	-	237	-	-	237
Distribution to non-controlling interest	-	-	-	-	(30)	(30)
Capitalising converting notes (note 21)	-	899	-	-	-	899
Balance at 31 December 2021	<u>97,626</u>	<u>14,832</u>	<u>26,344</u>	<u>(148,816)</u>	<u>(465)</u>	<u>(10,479)</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

LawFinance Limited
Consolidated statement of cash flows
For the year ended 31 December 2021

	Note	Consolidated 31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
Cash flows from operating activities			
Cash collections from customers (inclusive of GST)		15,156	28,179
Payments to suppliers and employees		(10,662)	(8,398)
Payments for disbursement reports and medical liens		(3,577)	(11,506)
Drawdowns from working capital facilities - disbursement funding division		629	3,526
Drawdowns from working capital facilities - medical lien funding division		111	6,083
Transfer of redraw account balance to PFG controlled account - medical lien funding		(2,206)	-
Repayment of working capital facilities - disbursement funding division		(2,176)	(9,379)
Repayment of working capital facilities - medical lien funding division		(4,716)	(12,950)
Interest and fees related to working capital facilities		(4,623)	(7,006)
Interest received		3	2
Interest paid		(5)	(18)
Net cash (outflow) from operating activities	33	(12,066)	(11,467)
Cash flows from investing activities			
Payments for property, plant and equipment		(154)	(16)
Payments for litigation case funding (net of co-funders contributions)		(200)	(222)
Net proceeds from term deposits		145	-
Net proceeds from realisation of investments (case settlements)		-	1,855
Cash balance transfer associated with the sale of disbursement funding and litigation case funding business		(194)	-
Net cash (outflow)/inflow from investing activities		(403)	1,617
Cash flows from financing activities			
Proceeds from issue of shares		13,321	9,058
Share issue transaction costs		(584)	(409)
Proceeds from borrowings - corporate		2,914	28,689
Repayment of borrowings - corporate		(1,290)	(25,391)
Repayment of lease liabilities		(263)	(245)
Interest and fees related to loans and borrowings		(1,217)	(1,320)
Net cash inflow from financing activities		12,881	10,382
Net increase in cash and cash equivalents		412	532
Cash and cash equivalents at the beginning of the financial year		5,197	5,638
Effects of exchange rate changes on cash and cash equivalents		(508)	(973)
Cash and cash equivalents at the end of the financial year	11	5,101	5,197

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:

Suite 335
49-51 Queens Road
Five Dock NSW 2046

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 March 2022.

Note 2. Significant accounting policies

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.

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

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, modified where appropriate, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

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.

The Group made a loss after tax of US\$21,229,000 for the year ended 31 December 2021 (2020: US\$78,136,000) and a net cash outflow from operating activities of US\$12,066,000 (2020: US\$11,467,000). This included a loss of US\$788,000 attributable to the performance of the JustKapital Financing and Litigation Funding businesses which were discontinued operations in H1 2021. The Group reached an agreement with the Secured Lenders to both businesses which de-risked the Group (refer to note 19(iv)).

The after-tax loss for the year ended 31 December 2021 also included the impacts of the financial assets being recorded at amortised cost (NHF's Front and Back Books of financial assets) and recognised through the profit and loss. The amortisation of these assets was calculated based on the prior six months collection history, which was adversely impacted by COVID-19. Management expects that the valuation of the book will show an improvement in settlement gains as COVID-19 impacts continue to subside in the US.

Note 2. Significant accounting policies (continued)

As at 31 December 2021 the Group had a net asset deficiency of US\$10,479,000 (31 December 2020: net asset deficiency: of US\$47,559,000). The Group has triggered a Review Event of the EFI asset backed facility, however, as at the date of this report, EFI had not issued notice to the borrower (SPVIII), to commence a required re-negotiation period. Please refer to note 19 for further details regarding this facility and the limited risks that the facility poses to the broader Group. A conditional waiver agreement has been reached with PFG in respect of that asset backed facility and the Group is currently in the process of raising capital which would satisfy remaining conditions of the Review Event waiver by 30 April 2022.

The Group's one remaining and only corporate debt facility as at 31 December 2021 is the Syndicate Acquisition Facility ('SAF') which had outstanding principal of US\$17,681,000 (A\$24,395,000). As at 31 December 2021 the SAF was performing and not in breach of its terms. Refer to note 19.

As at 31 December 2021, the Group held US\$5,101,000 (31 December 2020: US\$4,746,000) in cash. Of this amount \$4,319,000 (31 December 2020: \$3,161,000) was unrestricted and available to fund operations and investment in the business. These cash reserves will be required to fund Group operating expenses until the NHF business reaches the required scale and performance to be operationally cash positive.

The PFG funding facility provides the required funding for the US business to grow the Front Book and capture revenue. Under the PFG funding facility, PFG provide debt funding equal to 85% of the cost value of new/eligible originations (80% in respect of certain originations including the Bulk Deal. The remaining 15% is funded by the Group. While the Company breached the PFG tangible net worth covenant at 31 December 2021, and a Review Event triggered, a subsequent agreement was reached with PFG to waive the Review Event subject to certain conditions being met. The last condition to be satisfied by the Company is raising capital, which is expected to be satisfied with the completion of the Entitlement Offer in April 2022. This agreement reached with PFG demonstrates the strength of the Group's relationship with PFG and their alignment with the Group's strategic plans to grow the Front Book. Preparations are underway to raise capital to satisfy the condition of the waiver agreed by PFG as referred to in note 19.

The Directors have reviewed LAW's 12-month cash flow projections and underlying assumptions. The cash flow forecast shows the Group will have sufficient cash and funding to operate as a going concern during the forecast period, however depending on the level of growth in originations and collections, the Company may require further capital during the forecast period as discussed above. Management is currently working on further funding options and is confident that if it executes on its business plans during 2022, it will have the ability to raise further funding if required. As a result, the financial statements have been prepared on a going concern basis.

NHF have been focused, since executing the PFG funding facility in May 2021, on its market re-entry campaign. While progress of growing the front book was slower than expected, by the end of the year the Company had built significant momentum which has continued into the initial months of 2022.

The Group is focused on executing its strategic priorities over 2022. These priorities include growing the Front Book to a scale that drives positive cash flow from operations and future building of data capability to enhance the predictability (and quality) of returns and cost management and productivity initiatives. The Directors believe that successful execution of these strategic priorities, amongst others, will enable profitable deployment of capital 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 financial report at 31 December 2021. 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.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of LawFinance Limited as at 31 December 2021 and the results of all subsidiaries for the period then ended.

Note 2. Significant accounting policies (continued)

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in United States dollars, which is LawFinance Limited's presentation currency. The functional currency of the Group's Australian operations is Australian dollars and that of its United States operations is United States dollars.

Foreign currency transactions

Foreign currency transactions are translated into the Group's relevant functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into United States dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into United States dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The Group recognises revenue as follows:

Australian disbursement funding business (discontinued operation)

In the Australian disbursement funding business, the Group entered into contracts with law firms to pay, on the law firms' behalf, legal disbursements to progress their clients' claims. These disbursements ('Australian disbursement receivables') included those for the preparation of independent expert reports and medico-legal reports relating to the client's injuries.

Note 2. Significant accounting policies (continued)

As the contracts with law firms do not involve the provision of any good or service to the law firm, the Group concluded that the arrangement was not a contract with a customer under AASB 15 'Revenue from Contracts with Customers'. Rather, as the contract was the provision of loan financing to the law firm, it created a financial asset that was within the scope of AASB 9 'Financial Instruments' and classified as at fair value through profit or loss.

No active market existed for these loans. Any difference at transaction date between the calculated fair value and the transaction price (also known as a day 1 margin) was deferred and the Group recognised the deferred difference as a gain or loss only to the extent that it arose from a change in a factor (including time) that market participants would take into account when pricing the asset.

Any subsequent changes in the fair value of Australian disbursement receivables was recognised in the profit or loss statement and presented as net gains or losses on loan receivables at fair value. The net gains or losses were calculated using assumptions based on historical performance. These assumptions included information on changes to actual and expected write-offs, discounts and collections of loan receivables, as well as interest margin, taking into account the time value of money, credit risk, and the amortisation of any day 1 margins.

The deferred day 1 margin was recognised in the profit or loss on a systematic basis over the term of the arrangement using the same assumptions and methodologies. It is based on the profile of cash collections and the subsequent weighted average calculation of these collections applied to the recognition of the day 1 margin.

US medical lien funding business (continuing business)

In this business, the Group purchases a lien or obtains a letter of protection over receivables of medical providers and hospitals associated with personal injury legal cases ('medical lien receivables').

The Group does not take primary responsibility for the actual medical treatment in the United States nor is it obliged to purchase any medical lien. The Group solely enters into a contract with the medical provider to take a lien over a specific invoice and notifies the law firm of the patient (who is the party ultimately responsible for paying the invoice) of that medical lien. Considering this arrangement does not involve the provision of any good or service to the law firm, the Group has concluded that the arrangement is not a contract with a customer under AASB 15. As the transaction involves a payment for a right to future cash flows arising from an existing receivable, the Group has concluded that medical lien receivables are financial assets in the scope of AASB 9 and are classified as financial assets held at amortised cost.

Medical lien receivables are recognised initially at fair value. The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

Financial assets at amortised cost are adjusted from their initial fair value by accruing interest using the effective interest rate method. This is the interest rate that discounts expected future cash flows arising from the asset to its fair value on inception. At initial recognition, POCI assets do not carry a separate impairment allowance; instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate. Interest is recognised as income in profit or loss.

At each period end, the future expected cash flows now expected to arise from the asset going forward are discounted at the original effective interest rate. Any changes in value arising from changes in the amount or timing of expected cash flows are recognised as an impairment gain or loss.

Rent

Rent revenue is recognised on a straight-line basis over the lease term.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss as other income over the periods necessary to match them with the costs that they are intended to compensate.

Note 2. Significant accounting policies (continued)

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

An income tax benefit will arise for the financial year where an income tax loss is incurred and, where the permitted to do so, is carried-back against a qualifying prior period's tax payable to generate a refundable tax offset.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 2. Significant accounting policies (continued)

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Loan receivables at fair value through profit or loss – Australian disbursement funding business (discontinued operations)

Initial recognition and measurement

The Group's financial assets at fair value through profit or loss related to the loan receivables that arose from its disbursement funding business. The Group's loan receivables from this funding business were classified, at initial recognition, as financial assets at fair value through profit or loss. The determination was made at initial recognition based on the Australian disbursement funding business model for managing its financial instruments and the non-contractual cash flow characteristics of its instruments.

The Australian disbursement funding financial assets held at fair value through profit or loss were recognised initially at fair value. The best evidence of fair value of a financial instrument at initial recognition was normally the transaction price (i.e. the fair value of the consideration given or received). In the case of a legal disbursement funding arrangement, the fair value of the loan receivable at initial recognition may have differed from the transaction price.

The fair value of the financial asset represented the invoice amount (where the final amount to be received from the Australian disbursement funding was subject to change and conditional upon the outcome of decisions made by the relevant Court or the Insurer), adjusted for such factors as time value of money, discounts and write-offs, and credit risk. The transaction price of the financial asset was the amount of cash paid to fund the legal disbursement costs.

No active market existed for these loans. The difference between the fair value and the transaction price (also known as day 1 margin) was deferred and the Group recognised the deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset.

Subsequent measurement

Loan receivables for the Australian disbursement funding were carried in the statement of financial position at fair value, with changes in fair value presented in the statement of profit or loss as net gains or losses on loan receivables at fair value. The net gains or losses were calculated using assumptions based on historical performance. These assumptions included information on changes to actual and expected write-offs, discounts and collections of loan receivables, as well as interest margin, taking into account the time value of money, credit risk, and the amortisation of any day 1 margins.

The deferred day 1 margin was recognised in the profit or loss on a systematic basis over the term of the arrangement using the same assumptions and methodologies. It was based on the profile of cash collections and the subsequent weighted average calculation of these collections applied to the recognition of the day 1 margin.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) was primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when the contractual rights to receive cash flows from the loan receivables have either occurred or expired, or where there was an obligation to transfer the cash flows from those receivables and that transfer qualifies for derecognition. Additional impairment gains or losses arose if the amount or timing of cash flows differed from the expectation set at the previous period end.

Loan receivables at amortised cost – US medical lien receivables funding business (continuing business)

Initial recognition and measurement

Medical lien receivables are recognised initially at fair value.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). The transaction price of medical lien receivables is the amount of cash paid to the medical provider for the lien and is considered to represent fair value. The initial fair value of medical lien receivables acquired in the NHF acquisition has been determined through valuation techniques that are consistent in approach to those used for Australian disbursement receivables (but with inputs appropriate for the nature of the medical lien receivables).

Note 2. Significant accounting policies (continued)

Subsequent measurement

Financial assets at amortised cost are adjusted from their initial fair value by accruing interest using the effective interest rate method. This is the interest rate that discounts expected future cash flows arising from the asset to its fair value on inception. At initial recognition, POCI assets do not carry a separate impairment allowance; instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate.

At each period end, the future expected cash flows now expected to arise from the asset are discounted at the original effective interest rate. Any changes in value arising from changes in the amount or timing expected cash flows are recognised as an impairment change (gain or loss).

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when the contractual rights to receive cash flows from the loan receivables have either occurred or expired, or where there is an obligation to transfer the cash flows from those receivables and that transfer qualifies for derecognition. Additional impairment gains or losses can arise if the amount or timing of cash flows differ from the expectation set at the previous period end.

Derivative financial instruments

Hedges of a net investment

Hedges of a net investment in a foreign operation include monetary items that are considered part of the net investment. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity whilst gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Investments and other financial assets

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the Group intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Trade and other receivables

Trade receivables, other than loan receivables from its disbursement funding business and medical lien funding business mentioned previously in the Financial instruments note, are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 2. Significant accounting policies (continued)

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write-off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Plant and equipment	3-7 years
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The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Customer relationships

As part of the acquisition of NHF, a portion of the business consideration was applied to the value of existing long-standing customer relationships. This value will be amortised over a 10-year period. This balance was fully impaired at 31 December 2020 and 31 December 2021

Website

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their useful life of 3 years.

Note 2. Significant accounting policies (continued)

Litigation contracts in progress (discontinued operations)

Litigation contracts in progress represented future economic benefits controlled by the Group. As litigation contracts in progress are capable of being exchanged or sold, the Group was able to control the expected future economic benefit flowing therefrom. Accordingly, litigation contracts in progress meet the definition of intangible assets. The carrying value of litigation contracts in progress included the capitalisation of external costs of funding the litigation, such as solicitors' fees, counsels' fees and experts' fees, the capitalisation of certain directly attributable internal costs of managing the litigation, such as certain wages and other out of pocket expenses. Litigation contracts in progress were not amortised as the assets are not available-for-use until the determination of a successful judgment or settlement, at which point the assets are realised, and revenue is recognised.

The following specific asset recognition rules had been applied to litigation contracts in progress:

(i) Actions still outstanding: When funded litigation was outstanding and pending a determination, litigation contracts in progress were carried at cost. Subsequent expenditure was capitalised when it met all of the following criteria:

- demonstration of ability of the Group to complete the litigation so that the asset will be available-for-use and the benefits embodied in the asset will be realised;
- demonstration that the asset will generate future economic benefits;
- demonstration that the Group intends to complete the litigation;
- demonstration of the availability of adequate technical, financial and other resources to complete the litigation; and
- ability to measure reliably the expenditure attributable to the asset during the litigation contract in progress.

(ii) Successful judgments: Where the litigation had been determined in favour of the Group or a positive settlement had been agreed, this constituted a derecognition of the intangible asset and accordingly a gain or loss was recognised in the profit or loss statement. Any future costs relating to the defence of an appeal by the defendant were expensed as incurred.

(iii) Unsuccessful judgments: Where the litigation was unsuccessful at trial, this was a trigger for impairment of the intangible asset and the asset was written down to its recoverable amount. If the claimant, having been unsuccessful at trial appealed against the judgment, then future costs incurred by the Group on appeal were expensed as incurred.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Note 2. Significant accounting policies (continued)

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The liability arising from the facility agreement entered into with Efficient Frontier Investing (see note 19) accrues interest at 12% per annum. Additionally, following the full repayment of the loan the agreement requires that a share of any further proceeds from the medical lien receivables are transferred to the lenders. An estimate of the amount of future proceeds to be transferred to the lenders has been included in determining the expected cash flows when measuring this liability at amortised cost as they are an integral part of the effective interest rate.

The convertible bond was converted to equity as part of the restructure during 31 December 2021. Refer to note 19.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Finance costs

All other finance costs are expensed in the period in which they are incurred.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Equity-settled share-based compensation benefits are provided to employees and directors.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees and directors in exchange for the rendering of services.

Note 2. Significant accounting policies (continued)

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, they are treated as if they had vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques used to measure fair value are those that are appropriate in the circumstances and which maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 2. Significant accounting policies (continued)

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of LawFinance Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

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.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgments and estimates will seldom equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Key judgments and estimates - Australian disbursement receivables (note 12) (discontinued operations)

The key judgments applied in determining the accounting treatment for Australian disbursement receivables are:

- That the contract is a financing arrangement, not the provision of goods or services; and
- That cashflows arising from the contract are not solely principal and interest. This is on the ground that the quantum of payment does not vary with the passage of time.

Note 3. Critical accounting judgments, estimates and assumptions (continued)

Fair value measurement and carrying value measurement of loan receivables for Australian Disbursement Funding business (note 12)

The key estimates applied were those used to determine the fair value of the Australian disbursement receivables. The fair values could not be measured based on quoted prices in active markets. Instead, their fair value was measured using assumptions that are based on historical performance. These assumptions took into account discount rates, credit risk and analysis of discounts and write offs (a Level 3 fair value measurement). The inputs to these models were taken from observable markets where possible, but where this was not feasible, a degree of judgment is required in establishing fair values and the deferred day 1 margin. Changes in assumptions relating to these factors could have affected the reported fair value and carrying value of loan receivables and its fair value movement through profit or loss.

The key assumptions used to determine the fair value of the loan receivables are provided in note 25.

Key judgments and estimates - medical lien receivables (note 13)

The key judgment applied in determining the accounting treatment for medical lien receivables is that the cash flows arising from the arrangement are solely repayment of the original invoiced amount.

The key estimates involved in determining the amortised cost of the medical lien receivables are:

- The fair value estimate applied in determining the allocation of the purchase price to acquired medical lien receivables for the NHF acquisition;
- The estimation of the expected amount and timing of cash flows arising from the medical lien receivables at their inception; and
- The re-estimation of the expected amount and timing of cash flows arising from the medical lien receivables at 31 December 2021 and 31 December 2020.

Key judgements and estimates - EFI Facility Agreement liability (note 19)

The key estimates applied in determining the amortised cost of the liability arising from the new facility agreement (see note 19) are primarily based on the assumptions underlying the expected recovery of the medical lien receivables, specifically:

- The estimation of the expected amount and timing of future cash flows arising from the medical lien receivables that will be used to repay the principal and accrued interest under the facility; and
- Where the estimate indicates that loan and accrued interest will be repaid in full, the estimation of the lender's share of any further cash flows under the facility agreement.

Changes in the timing and magnitude of the estimated cash flows from those assessed at inception of the loan will impact the income statement. A reduction in the amount of proceeds or those proceeds arising later than expected will have a negative impact. Increases in the amount of proceeds or those proceeds arising earlier than anticipated will have a positive impact.

The assumptions used in determining the amortised cost of the liability are the same as those that have been used to assess the amortised cost of the related assets.

Carrying value measurement of loan receivables for Medical Lien Receivables (note 13)

Classifying loan receivables at amortised cost and the use of the credit-adjusted effective interest rate method requires the Group to estimate future cash flows from medical lien receivables at acquisition date and at each balance sheet date.

Estimating the timing and amount of cash flows for both the calculation of credit-adjusted effective interest rates ('CAEIRs') and subsequent re-measurement of the carrying amount of medical lien receivables requires significant management judgment regarding key assumptions.

The key underlying estimates that form the basis for amortised cost accounting are the quantum of the expected cash receipt from the lien and its expected timing, as the vast majority of medical liens are settled through one-off payments.

Cash flow forecasts are generated using models incorporating a number of factors including historical experience of the magnitude and timing of recoveries on accounts which have similar key attributes, which is determined at an invoice level basis.

Note 3. Critical accounting judgments, estimates and assumptions (continued)

The Group uses the information and data obtained on acquisition of the medical lien to determine expected cash flow forecasts and calculate the CAEIRs. The Group in later periods adjusts the carrying amount of the portfolios to reflect revised estimated cash flows. The Group then adjusts the carrying amount of the portfolios to reflect the revised estimated cash flows. Events or changes in assumptions and management's judgement will affect the recognition of revenue in the period.

When undertaking this valuation exercise as at 31 December 2021, management first characterised the portfolio into two sub portfolios being i) the PFG Portfolio and a subset of the EFI portfolio that is not subject to litigation and enforcement actions ("Performing Sub-Portfolio"); and ii) the EFI claims that are currently subject to litigation or enforcement action ('EFI Litigation Sub-Portfolio'). Different methodologies were applied to estimate the future cash flows from these two sub portfolios. As at 31 December 2021, the Performing Sub-Portfolio was assessed to have a carrying value of \$25,876,270 and the EFI Litigation Sub-Portfolio had a carrying value of \$15,565,645.

The future cash flows of the Performing Sub-Portfolio were estimated based on several key factors including:

- the quality of the Medical Lien Receivables and the status of underlying insurance claims which is assessed, based on available information obtained from the medical service provider, publicly available sources or the plaintiff's attorney;
- the legal and regulatory environment in each state which influences settlement outcomes including the time to settle/resolve underlying insurance claims;
- NHF's historical experience / recovery performance from settling Medical Lien Receivables with similar characteristics in the relevant jurisdiction, including loss rates;
- given the uncertainty relating to ongoing impacts of COVID-19, the Group utilised collections data applicable to the 6 months to 31 December 2021, in order to estimate future cash flows. Recovery performance improved through this 6 month period but was still considered to be adversely impacted as a result of disruption caused by COVID-19; and
- impacts of COVID-19 on future performance including time to collect.

Progress and expected outcomes from actions being undertaken to pursue contractual claims against medical service providers, who sold claims to NHF. These claims stem from obligations under the funding contracts for medical service providers to provide refunds or replacement claims or breaches of the terms of the funding agreements. These claims are assessed based on their specific facts, merits of the case and information available to assess the medical providers ability to pay. Our estimates of likely outcomes from these claims includes the views of our legal advisors.

Future cash flows applicable to the EFI Litigation Sub-Portfolio were individually assessed at 31 December 2021 in order to derive the total carrying value of the sub-portfolio of \$15,565,645. This portfolio is comprised of 5 separate claims/actions against private medical groups, of which 3 large actions comprise approximately 95% of the total.

As with any litigation the outcomes are uncertain and challenging to estimate. Estimates have been formulated by management based on information available at the time. Actual outcomes may ultimately differ significantly to these estimates. Estimated future cash flows for this portfolio have been based on an assessment of:

- The likelihood of obtaining a judgement debt and an estimate of time and cost to obtain such judgement; and
- the existence of valuable assets to pursue judgement against.

In undertaking this assessment management have considered, amongst other things:

- views of our legal advisors engaged in respect of the relevant actions;
- the strength of our legal arguments and potential defences;
- quality and completeness of information to support the actions;
- experience from similar actions;
- settlement offers obtained to date; and
- information available to identify and assess the potential assets available to defendants in order to satisfy any successful judgement debt.

The level of information available to assess the financial position of debtors varies from case to case, however given they are private companies and individuals the information is not typically publicly available and is generally obtained through discovery actions that are ongoing.

Management also reviews the model on a portfolio basis to take into account external factors, which have impacted historical, or will impact future performance and where necessary portfolios are calibrated to take into account these known factors. The assumptions and estimates made are specific to the particular characteristics of each state based portfolio.

Note 3. Critical accounting judgments, estimates and assumptions (continued)

If resolution of any uncertainty results in an increase or decrease in the carrying value of loan receivables, this is recognised in the income statement at that point in time. The estimated future cash flows are most sensitive to observed payment history, as well as timing of future cash flow receipt.

COVID-19 pandemic

In the United States ('U.S. '), court activity has slowed dramatically since the COVID-19 outbreak, and cases have not been able to move through the system in the normal manner, thereby extending case settlement timeframes. Motor vehicle insurers have taken advantage of the situation to delay settlement discussions and make payments unless the victim is willing to accept discounts. This has had a material impact on cash collections. As a result, our cash flow from collections in the U.S. have remained slow in returning to pre-COVID levels.

By the end of 2021, the impacts of COVID-19 on the Court system have significantly lessened, with some Courts still working through a backlog of cases impacting the time taken to resolve cases.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgment. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group.

Goodwill

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. The Group has fully impaired goodwill at 31 December 2021.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of non-financial assets other than goodwill at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. This includes an assessment of each individual litigation contract in progress as to whether the underlying litigation is likely to be successful, the cost and timing of future expected cash flows to completion and the ability of the defendant(s) to pay upon a successful completion. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves assessing the value of the asset at fair value less costs of disposal and using value-in-use models which incorporate a number of key estimates and assumptions.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Refer to note 8 for further details.

Valuation of contingent proceeds

For the purposes of financial reporting, the Directors have made an internal management assessment that the value of the conditional component of the sales proceeds of the Litigation Funding business has a nil value. Refer to note 9.

Note 3. Critical accounting judgments, estimates and assumptions (continued)

Assetsecure loan

The Group records the outstanding debt in accordance with the Amended and Restated Standstill Deed. It is measured by taking the outstanding debt of A\$2,000,000 less repayments of A\$83,333 per month over 12 months ending on 30 May 2022. A final payment of A\$1,000,000 must be paid by 1 July 2022 in full and final satisfaction of the agreement. A bank guarantee of A\$1,000,000 is held as security and available to Assetsecure if it has not been repaid in full by 1 July 2022. Refer to note 19.

Note 4. Operating segments

Identification of reportable operating segments

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

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

Operating segment information

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

* Information about discontinued operation is provided in note 9.

Note 4. Operating segments (continued)

Consolidated - 31 Dec 2020	JustKapital Finance and Litigation funding* US\$'000	STL US\$'000	National Health Finance US\$'000	Other US\$'000	Total US\$'000
Revenue					
Net loss from disbursement funding/medical lien funding	(133)	-	(9,311)	-	(9,444)
Other revenue	204	22	118	1,714	2,058
	71	22	(9,193)	1,714	(7,386)
Other income	-	-	-	2	2
Total revenue	71	22	(9,193)	1,716	(7,384)
Segment result					
Depreciation and amortisation	(9,182)	(55)	(50,507)	15,978	(43,766)
Finance costs	(1,114)	-	(467)	(3)	(1,584)
	(4,176)	(19)	(8,463)	(6,528)	(19,186)
Profit/(loss) before income tax expense	(14,472)	(74)	(59,437)	9,447	(64,536)
Income tax expense					(13,600)
Loss after income tax expense					(78,136)
Assets					
Segment assets	25,365	127	56,473	4,534	86,499
Total assets					86,499
Liabilities					
Segment liabilities	28,094	-	56,575	49,389	134,058
Total liabilities					134,058

* Information about discontinued operation is provided in note 9.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Accordingly, all liabilities are allocated based on the operations of the segment.

Geographical information

	Revenue from external customers		Geographical non-current assets	
	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
Australia	2,033	1,807	-	232
United States	(3,079)	(9,193)	356	943
	(1,046)	(7,386)	356	1,175

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 5. Net loss from disbursement funding/medical lien funding

	Consolidated 31 Dec 2021 US\$'000	Consolidated 31 Dec 2020 US\$'000
<i>From continuing operations</i>		
<i>Medical lien funding - USA:</i>		
Interest income at amortised cost	6,806	8,550
Net impairment losses on financial assets at amortised cost	(11,313)	(18,275)
Net settlement gains on financial assets at amortised cost	1,428	414
	<u>(3,079)</u>	<u>(9,311)</u>

Note 6. Other revenue

	Consolidated 31 Dec 2021 US\$'000	Consolidated 31 Dec 2020 US\$'000
<i>From continuing operations</i>		
Interest received – short-term lending	10	22
Rental income	66	64
Government grants and subsidies	1,246	202
Non-case related settlements - NHF	70	44
Interest adjustment - vendor loan	-	1,523
Other revenue	<u>1,392</u>	<u>1,855</u>

Government grants

In the prior year, the Australian Government introduced its 'Boosting Cash Flow for Employers' scheme in response to the COVID-19 pandemic and provided the Group with its final payment of \$22,000 (31 December 2020: \$192,000). The Groups eligibility ended in December 2020. These non-tax amounts have been recognised as government grants and recognised as other revenue once there is reasonable assurance that the Group will comply with any conditions attached.

The Group also received a \$10,000 (31 December 2020: \$10,000) grant from the City of Chandler.

The Group also received debt forgiveness of \$1,113,000 inclusive of \$9,000 accrued interest (31 December 2020: \$nil) from the US Small Business Administration for its first and second Paycheck Protection Program Loan ('PPP Loan') – see note 19 for further information.

An Employee Retention Credit for \$101,000 was also received from the US Department of the Treasury under the CARES Act to provide relief in relation to the COVID-19 pandemic.

Interest adjustment – vendor loan

As a result of the write-off of the vendor loan, the Group reversed the interest that had previously been capitalised to this vendor loan during the year ended 31 December 2020.

Note 7. Expenses

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
Loss before income tax from continuing operations includes the following specific expenses:		
<i>Impairment gain on financial liabilities*</i>		
Adjustment – vendor loan	-	(10,602)
Adjustment – promissory notes payable	-	(9,000)
	-	(19,602)
<i>Employee benefits expense</i>		
Defined contribution superannuation expense	148	136
Share-based payments expense	184	-
Employee benefits expense excluding superannuation	3,864	4,588
	4,196	4,724
<i>Depreciation and amortisation expense</i>		
Depreciation - property, plant and equipment	100	77
Depreciation - right-of-use assets	239	198
Amortisation - other intangibles	10	195
	349	470
<i>Impairment of assets</i>		
Goodwill	-	37,828
Impairment of short-term loans	75	479
	75	38,307
<i>Administration and other expenses</i>		
ASIC, ASX and share registry fees	46	41
Insurance	220	191
Legal and professional fees**	3,082	2,903
Rent and office costs	(51)	104
Travel and accommodation	265	98
Short-term lease payments	-	15
Low-value assets lease payments	54	55
Other	519	279
	4,135	3,686
<i>Finance costs</i>		
Interest expense and line fees	11,440	14,919
Interest - right-of-use assets	34	91
	11,474	15,010

* As a result of the write-off of the vendor loan, the Group reversed the interest that had previously been capitalised to this vendor loan during the period.

** This amount includes legal and professional fees of \$1,363,000 (2020: \$1,454,000) associated with the Efficient Frontier Investing refinance, addressing the defaults under the Syndicated acquisition facility and the restructuring process.

Note 8. Income tax

	Consolidated	
	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
Income tax (expense)/benefit is attributable to:		
Loss from continuing operations	(1,528)	12,810
Loss from discontinued operations	-	790
	<u>(1,528)</u>	<u>13,600</u>
Aggregate income tax (expense)/benefit	<u>(1,528)</u>	<u>13,600</u>
<i>Numerical reconciliation of income tax (expense)/benefit and tax at the statutory rate</i>		
Loss before income tax benefit/(expense) from continuing operations	(21,969)	(50,064)
Loss before income tax expense from discontinued operations	(788)	(14,472)
	<u>(22,757)</u>	<u>(64,536)</u>
Tax at the statutory tax rate of 25% (2020: 27.5%)	(5,689)	(17,747)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Expenses not deductible	24,051	4,367
Income not assessable	(4,998)	(14,714)
Adjustment for withholding tax provision	(1,528)	-
	<u>11,836</u>	<u>(28,094)</u>
Difference in overseas tax rates	142	16,364
Exchange differences	(13,506)	12,751
Adjustment for derecognition of deferred tax asset	-	12,579
	<u>(1,528)</u>	<u>13,600</u>
Income tax (expense)/benefit	<u>(1,528)</u>	<u>13,600</u>

The Group has \$3,279,000 (A\$4,524,000) (2020: \$23,876,000 (A\$31,093,000)) of income tax losses to utilise in Australia and \$89,402,000 (2020: \$54,976,000) of income tax losses to utilise in the USA. These have not been recognised as assets.

Note 9. Discontinued operations

Description

Disbursement funding

The disbursement funding division ('JustKapital Finance') was operated in Australia by LAW's wholly owned subsidiary JustKapital Financing Pty Ltd ('JKF'). As announced on 30 April 2021 'Update on Conditions and JustKapital Financing', LAW transferred control and collection responsibilities for the JKF book to an external collection agent appointed by its secured lenders Assetsecure Pty Ltd ('Assetsecure'). JKF's directors also appointed Martin Walsh as the Voluntary Administrator of JKF. Martin was subsequently appointed as Liquidator of JKF on 4 June 2021.

The JKF business operations and balance sheet were deconsolidated from the Group's accounts as at 30 April 2021.

LAW and Assetsecure reached an agreement whereby LAW will pay c.US\$63,000 per month for 12 months to conclude on 30 May 2022 and US\$725,000 (A\$1,000,000) by 1 July 2022 in full satisfaction of its potential corporate guarantee exposure relating to the Assetsecure receivables purchase agreement with JKF.

JustKapital Finance provided finance to law firms to fund the legal disbursements required to progress the claims of their clients and which the client generally cannot fund themselves. The deferred payment structure offered by JustKapital Finance addressed the immediate and growing demand where the client or firm cannot, or may not be willing to, fund disbursements directly.

Note 9. Discontinued operations (continued)

Litigation funding

During the 2018 financial year the Board resolved to exit the litigation funding division. The litigation funding division is capital intensive which has stretched the Group's working capital resources. Therefore, the Board determined that the best use of the Group's limited resources was to invest in its core businesses.

On 24 June 2021, the sale of JustKapital Litigation Pty Ltd (and its subsidiaries) ('JKL') to Legal Equity Partners Pty Limited ('LEP') completed. The transaction was considered fair and reasonable in an Independent Expert's Report prepared by Grant Thornton and was subsequently approved by shareholders at the Annual General Meeting on 25 May 2021. JKL was sold for A\$1, plus conditional proceeds equal to:

- 50% of the net proceeds received from one of the funded cases; and
- 75% of any excess proceeds after repayment of the secured debt.

For the purposes of financial reporting, management has calculated the value of the conditional component of the sales proceeds to have nil value. LAW is receiving updates and information from LEP, in accordance with the sale terms in order to monitor the progress of outstanding litigation cases, which enables management to estimate the value of the conditional component of the sales proceeds as cases proceed.

The litigation funding operations and the balance sheets attributable to JKL and its subsidiaries were deconsolidated from the date the Group lost control of operations as at 24 June 2021 when the sale to LEP completed.

Financial performance information

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
Net loss from medical lien funding	-	(1,414)
Net gain from disbursement funding	2,033	1,281
Other income:		
Litigation contracts in progress – settlements and judgments	-	1,892
Litigation contracts in progress – expenses	-	(1,750)
Other revenue	7	61
Total revenue	<u>2,040</u>	<u>70</u>
Non-supplier related cost of sales	-	(29)
Employee benefits expense	(529)	(227)
Depreciation and amortisation	(52)	(1,114)
Impairment of assets	-	(8,733)
Administration and other expenses	(76)	(263)
Finance costs	(2,171)	(4,176)
Total expenses	<u>(2,828)</u>	<u>(14,513)</u>
Loss before income tax expense	(788)	(14,472)
Income tax expense	-	(790)
Loss after income tax expense from discontinued operations	<u>(788)</u>	<u>(15,262)</u>

Note 9. Discontinued operations (continued)

Cash flow information

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
Net cash inflow/(outflow) from operating activities	50	(67)
Net cash (outflow)/inflow from investing activities	(199)	1,632
Net cash (outflow) from financing activities	-	(54)
	<u> </u>	<u> </u>
Net (decrease)/increase in cash and cash equivalents from discontinued operations	<u>(149)</u>	<u>1,511</u>

Note 10. Earnings per share

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
<i>Earnings per share for loss from continuing operations</i>		
Loss after income tax	(20,441)	(62,874)
Non-controlling interest	(27)	(338)
	<u> </u>	<u> </u>
Loss after income tax attributable to the owners of LawFinance Limited	<u>(20,468)</u>	<u>(63,212)</u>

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	28,995,748	9,041,890
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>28,995,748</u>	<u>9,041,890</u>

	Cents	Cents
Basic loss per share	(70.59)	(699.10)
Diluted loss per share	(70.59)	(699.10)

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
<i>Earnings per share for loss from discontinued operations</i>		
Loss after income tax	(788)	(15,262)
Non-controlling interest	-	-
	<u> </u>	<u> </u>
Loss after income tax attributable to the owners of LawFinance Limited	<u>(788)</u>	<u>(15,262)</u>

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	28,995,748	9,041,890
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>28,995,748</u>	<u>9,041,890</u>

	Cents	Cents
Basic loss per share	(2.72)	(168.79)
Diluted loss per share	(2.72)	(168.79)

Note 10. Earnings per share (continued)

	Consolidated	
	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
<i>Earnings per share for loss</i>		
Loss after income tax	(21,229)	(78,136)
Non-controlling interest	(27)	(338)
Loss after income tax attributable to the owners of LawFinance Limited	<u>(21,256)</u>	<u>(78,474)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	28,995,748	9,041,890
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>28,995,748</u>	<u>9,041,890</u>
	Cents	Cents
Basic loss per share	(73.31)	(867.89)
Diluted loss per share	(73.31)	(867.89)

The weighted average number of ordinary shares are calculated based on the number of ordinary shares that would have been in existence had the capital restructure occurred as at 1 January 2020, in accordance with AASB 133 'Earnings per share'.

The Company excluded 2,691,667 options on issue (2020: 71,500,000), nil convertible bonds (2020: 14,000), 4,527,440 warrants (2020: 452,743,636) and 2,234,141 shares (maximum conversion) attached to the Capitalising converting notes (note 21) (2020: 223,414,026) from the diluted earnings calculations as they are anti-dilutive for the financial year.

Note 11. Cash and cash equivalents

	Consolidated	
	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
<i>Current assets</i>		
Cash at bank*	<u>5,101</u>	<u>4,746</u>
<i>Reconciliation to cash and cash equivalents at the end of the financial year</i>		
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:		
Balances as above	5,101	4,746
Cash and cash equivalents - classified as held for sale	-	451
Balance as per statement of cash flows	<u>5,101</u>	<u>5,197</u>

* Of the total cash at bank, \$782,000 (2020: \$1,585,000) was considered unavailable for operations as it was held pending distribution to asset-backed lenders. Refer note 19(i) Efficient Frontier Investing and note 19(iii) Partners for Growth.

Note 12. Financial assets at fair value through profit or loss - Australia

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
<i>Current assets</i>		
Loan receivables - disbursement funding - Australia (gross)	-	13,597
Fair value movement	-	(2,827)
Unrecognised day 1 margin	-	(532)
Allowance for expected credit losses	-	(3,044)
	<u>-</u>	<u>7,194</u>
<i>Non-current assets</i>		
Loan receivables - disbursement funding - Australia (gross)	-	12,980
Fair value movement	-	(2,700)
Unrecognised day 1 margin	-	(1,351)
	<u>-</u>	<u>8,929</u>
	<u>-</u>	<u>16,123</u>

Discontinued operations. Refer to note 9.

Note 13. Financial assets at amortised cost - USA

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
<i>Current assets</i>		
Loan receivables - medical lien funding - USA (gross)	44,292	48,161
Allowance for expected credit losses	(31,920)	(32,922)
	<u>12,372</u>	<u>15,239</u>
<i>Non-current assets</i>		
Loan receivables - medical lien funding - USA (gross)	104,072	120,132
Allowance for expected credit losses	(75,002)	(82,118)
	<u>29,070</u>	<u>38,014</u>
	<u>41,442</u>	<u>53,253</u>

Medical lien funding receivables are considered purchased credit impaired assets under accounting standards. They are initially recognised with an allowance for expected credit losses reflecting estimated lifetime credit losses. This reflects an estimate of both the probability that a settlement will not recover the entire face value of the underlying receivable and the probability that no settlement is obtained and is based on historical loss rates.

Refer to note 3 on details relating to critical accounting judgments, estimates and assumptions used by management in determining carrying value.

Note 14. Other receivables

	Consolidated	
	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
<i>Current assets</i>		
Other trade receivables	-	48
Short-term loans	-	128
	-	176
Other receivables*	979	655
	979	831
<i>Non-current assets</i>		
Other receivables**	15	5
	994	836

* Other receivables (current) as at 31 December 2021 includes:

- (i) term deposits of \$725,000 (31 December 2020: \$154,000). The term deposit is held as part of a standstill agreement with Assetsecure and is able to be called on 1 July 2022 (see note 19).
- (ii) Mesh receivables of \$246,000 (31 December 2020: \$501,000). The associated Mesh liabilities of \$nil as at 30 December 2021 (31 December 2020: \$717,000) are included in note 18 'Trade and other payables'.

** Other receivables (non-current) as at 31 December 2021 includes rental bond of \$15,000 (31 December 2020: \$5,000).

Note 15. Property, plant and equipment

	Consolidated	
	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
<i>Non-current assets</i>		
Plant and equipment - at cost	369	459
Less: Accumulated depreciation	(263)	(368)
	106	91

Reconciliations

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

Consolidated	Plant and equipment US\$'000
Balance at 1 January 2020	168
Additions	13
Exchange differences	(13)
Depreciation expense	(77)
	91
Balance at 31 December 2020	91
Additions	117
Exchange differences	(2)
Depreciation expense	(100)
	106
Balance at 31 December 2021	106

Note 16. Right-of-use assets

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
<i>Non-current assets</i>		
Land and buildings - right-of-use	549	1,780
Less: Accumulated depreciation	(314)	(706)
	235	1,074
	235	1,074

Additions to the right-of-use assets during the period were US\$262,000.

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

For other AASB 16 lease related disclosures refer to the following:

- note 7 for details of interest on lease liabilities and other lease payments;
- note 24 for undiscounted future lease commitments;
- consolidated statement of financial position for lease liabilities at the end of the reporting period; and
- consolidated statement of cash flows for repayment of lease liabilities.

Note 17. Intangibles

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
<i>Non-current assets</i>		
Website - at cost	25	25
Less: Accumulated amortisation	(25)	(15)
	-	10
Customer relationships – US medical lien funding business	-	1,913
Less: Accumulated amortisation	-	(1,913)
	-	-
	-	10

Note 17. Intangibles (continued)

Reconciliations

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

Consolidated	Website US\$'000	Customer relationships US\$'000	Litigation contracts in progress US\$'000	Total US\$'000
Balance at 1 January 2020	4	1,674	6,362	8,040
Additions	8	-	3,042	3,050
Classified as held for sale (note 9)	-	-	(8,070)	(8,070)
Disposals	-	-	(870)	(870)
Case funding adjustments	-	-	4,295	4,295
Impairment	-	(1,481)	(4,174)	(5,655)
Exchange differences	-	-	333	333
Amortisation expense	(2)	(193)	(918)	(1,113)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2020	10	-	-	10
Amortisation expense	(10)	-	-	(10)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2021	-	-	-	-

Due to the terms of the refinancing of the underperforming back book announced to the market on 7 December 2020 (the back book of claims was the main asset of the NHF business acquired in 2018), constrained funding facilities and uncertain impacts of the COVID-19 pandemic on future cashflows, a decision was taken to fully impair the customer relationships associated with the acquisition of the NHF Business of \$1,481,000 for the year ended 31 December 2020.

Litigation contracts in progress – these costs form part of the discontinued operations as set out in note 9.

Note 18. Trade and other payables

	Consolidated 31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
<i>Current liabilities</i>		
Trade and other payables*	692	5,031
Payable to Partners for Growth**	750	-
Accruals	626	1,673
Goods and services tax payable	-	85
	<hr/>	<hr/>
	2,068	6,789

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

Refer to note 24 for further information on financial instruments.

* The above Trade and other payables as at 31 December 2021 includes Mesh liabilities of \$nil (31 December 2020: \$717,000) – see note 14 'Other receivables'.

** As part of the Partners for Growth facility, a make good fee of \$750,000 will be payable in the following circumstances: (a) at the end of the loan term; (b) a refinancing of the PFG facility; (c) where PFG cancels the warrants; (d) at the end of the warrant term; or (e) PFG exercises the warrants.

The \$750,000 will be offset against the funds required to pay for the warrants.

Note 19. Borrowings

	Consolidated 31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
<i>Current liabilities</i>		
Efficient Frontier Investing (i)	23,327	25,266
Syndicated acquisition facility (ii)	-	36,716
Partners for Growth (iii)	13,935	-
Assetsecure Pty Limited loan (iv)	1,027	17,017
Atalaya Capital Management (v)	-	17,012
Other NHF subordinated debt (vi)	-	4,750
Lucerne Group combined loan (vii)	-	3,684
SAF Side Loan 2 (viii)	-	2,496
SAF Side Loan 1 (ix)	-	2,130
Other NHF subordinated debt (x)	-	1,410
Convertible bonds payable (xi)	-	1,233
Other NHF subordinated debt (xii)	-	1,000
Principis Master Fund facility - US medical lien funding business (xiii)	-	415
Paycheck Protection Program loan (xiv)	-	335
Convertible Promissory Note (xv)	16	-
Economic Injury Disaster Relief loan (xvi)	9	4
Insurance financing - Australia	-	27
Credit cards	9	19
	38,323	113,514
<i>Non-current liabilities</i>		
Syndicated acquisition facility (ii)	17,681	-
Paycheck Protection Program loan (xiv)	-	270
Economic Injury Disaster Relief loan (xvi)	137	146
	17,818	416
	56,141	113,930

Refer to note 24 for further information on financial instruments.

(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 US\$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 under this facility reduced to US\$24,317,000 at 31 December 2021 (31 December 2020: US\$25,446,000). The carrying value of the loan in accordance with AASB 9 Financial Instruments was US\$23,327,000 at 31 December 2021 (31 December 2020: US\$25,266,000).

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 2020: 12.50%).

Under the terms of the agreement, the facility is to be repaid with proceeds received from the assets of SPV III (which acquired the rights to certain US medical lien receivables). As at 31 December 2021, for accounting purposes, the discounted future cash flow value of such receivables (book value) is c.94% of the outstanding loan, indicating that there may be a shortfall of \$1,438,000 on an accounting basis to allow SPV III to repay the loan in full, however the actual recoveries may be sufficient for the loan to be discharged in full.

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

Note 19. Borrowings (continued)

In relation to the LVR, being the ratio of the principal outstanding of the loan to the valuation of certain secured assets comprising receivables (the 'Claims'). SPV III is currently in compliance with this covenant, based on management's valuation of the claims. Maintaining compliance with this covenant will be dependent on future collections including the outcome of legal recovery (litigation) actions which are difficult to estimate (time and quantum).

In January 2022, SPV III notified EFI that a Review Event occurred given it was unable to pay US\$604,377 into the collections hurdle pre-payment account subject to EFI security resulting from a collection hurdle shortfall as at 31 December 2021, which related to the level of collections with respect to certain claims in the preceding 3 months. The obligation to pay the collection hurdle shortfall is an obligation of SPV III and management is of the view that it is not broadly in the interests of stakeholders to fund this payment from available cash resources of the Company, at this time, which would reduce cash available to invest these funds into new originations to create value for all stakeholders, including EFI and its investors in the facility.

Following a Review Event, EFI may notify SPV III requiring it to negotiate in good faith for a period of 30 days to agree on revised facility terms and if EFI and SPV III are unable to agree revised terms then EFI may demand repayment of the loan within 90 days from the expiry of the negotiation period. It is unclear whether EFI intend to issue this notice to negotiate revised terms or what they may seek in any such negotiation.

The loan is secured by a general security agreement over the assets of SPV III which holds the relevant claims receivables, which have a book value as at 31 December 2021 of US\$22,879,000 (31 December 2020: US\$29,502,000). 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\$28,687,500; and
- (b) an amount equal to the principal amount outstanding in respect of the loan (including any capitalised interest) at the relevant date plus the amount of interest that would accrue on such principal amount outstanding until the final day of the next calendar month.

The receivables held within NHF SPV III, LLC 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 debt outstanding to the SAF Lenders is repaid in full or the Company notifies the SAF Lenders that the subordination arrangement under the Subordination Agreement has terminated (such notification cannot be given earlier than the date that is 10 business days prior to 4 November 2023).

As the EFI facility is an amortising loan, under AASB 9 Financial Instruments, it is required to be split between current and non-current based on forecast cash repayments of the facility. Given the Review Event that arose due to SPV III breaching the collection hurdle undertaking and the status of discussions with EFI the amount has been recorded as current as at 31 December 2021.

(ii) Syndicated acquisition facility ('SAF')

The Syndicated acquisition facility of US\$32,344,000 (A\$42,000,000) (31 December 2020: US\$32,252,000 (A\$42,000,000)) was provided by various leading Australian institutions and family offices. Interest payable under this facility is 13% per annum (31 December 2020: 13%). Interest was accrued under this facility for the period until the restructuring was completed and therefore the balance prior to restructure was US\$38,693,000 (A\$50,244,000) (31 December 2020 was US\$36,716,000 (A\$47,813,000)).

As part of the Company's debt restructure approved by shareholders at the Company's Annual General Meeting on 25 May 2021, a portion of this facility was converted to equity – 835,770,317 ordinary shares (pre-share consolidation) were issued to settle this outstanding debt.

In addition to the remaining SAF facility of US\$15,020,000 (A\$20,000,000), now referred to as Tranche 1, a new loan amount of US\$2,873,000 (A\$3,825,000) was received during the period, now referred to as Tranche 2.

Note 19. Borrowings (continued)

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 May 2024. During an election to capitalise interest, the amount is taken to be added to the principal outstanding under the relevant loan.

At 31 December 2021, the Group elected to capitalise the December 2021 quarterly interest of US\$416,000 (A\$570,496).

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

(iii) Partners for Growth ('PFG')

The loan facility of US\$30,000,000 (31 December 2020: US\$nil) was established on 14 April 2021 and is available 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'). The facility has the capacity to be increased to US\$70,000,000 based on certain conditions and criteria set by PFG. The interest payable under the drawn down facility total 11.25% per annum (31 December 2020: nil) and the line fee payable on the relevant facility limit is 0.5% (31 December 2020: nil). The facility is subject to the facility terms available to be drawn during the initial three years with an amortisation period in the fourth year and the maturity date being the fourth anniversary of the date of initial draw.

The drawn loan amount of US\$16,140,000 at 31 December 2021 (31 December 2020: US\$nil) comprises of the principal amount of US\$15,962,000 (31 December 2020: US\$nil) and accrued interest and legal fees of US\$177,000 (31 December 2020: US\$nil). The redraw account of US\$2,201,000 was previously controlled by LAW and transferred to a PFG account in the second half of the year. It was previously classified as cash and cash equivalents.

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, lockbox agreements and deposit account control agreements.

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

The facility was compliant with the required advance rate of 85% of Eligible Receivables as at 31 December 2021. Following completion of the December 2021 borrowing base submissions and adjustments, which occurred in January 2022, NHF breached two financial covenants as at 31 December 2021 (Tangible Net Worth of the Company and Minimum Cash Collections Covenant). These breaches constituted Review Events which PFG has agreed to waive subject to the satisfaction of certain conditions by the Company and NHF.

These conditions include that an additional concentration funding 'hold back provision' of 15% of the total eligible Michigan receivables, will be applied to the borrowing base of receivables eligible for funding. Receivables originated in Michigan currently account for approximately one third of the total book as at 31 December 2021. Given forecast facility headroom at the end of February 2022, we do not expect that any cash will need to be contributed to the facility to ensure compliance with the required advance rate of 85%.

In addition, the conditions require that LAW needs to ensure that the Tangible Net Worth of the LAW is brought into compliance with the terms of the PFG Facility by 30 April 2022 and that the Company has sufficient capital to fund at least 6 months of expected originations and operating expenditure. As at 31 January 2021, the Company's Tangible Net Worth was \$7.1 million against a requirement in the PFG Facility of \$10 million.

The condition described in the paragraph above, was proposed by PFG on the assumption that we will complete a large (c.\$10m) funding transaction structured as a collateralised line of credit with a single medical service provider group in March 2022. PFG has agreed to lift concentration limits relating to the portion of the book of receivables originated from a single service provider, on the basis that PFG will fund the Line of Credit transaction at 80%, to support the completion of the funding transaction.

The Board considers that PFG's concessions are a clear demonstration of the strength of LAW's funding relationship and PFG's support of our growth strategy.

The Board is confident that all the conditions can be satisfied by 30 April 2022.

Note 19. Borrowings (continued)

Given the covenant breaches as at 31 December 2021, the PFG loan amount has been recorded as current payable as at 31 December 2021.

(iv) Assetsecure Pty Limited ('Assetsecure')

This loan facility of \$30,716,000 (A\$40,000,000) was available to fund the Australian disbursement funding business operated by JustKapital Financing Pty Limited (JKF). Assetsecure appointed Receivers and Managers on 30 April 2021 to manage and realise the portfolio of receivables owned by JKF. Martin Walsh was appointed as Liquidator of JustKapital Financing Pty Ltd on 4 June 2021 and is currently winding up the affairs of the company in collaboration with the Receivers.

LAW and Assetsecure reached an agreement whereby LAW will pay c.US\$63,000 (A\$83,333) per month for 12 months to conclude on 30 May 2022 and US\$725,000 (A\$1,000,000) by 1 July 2022 in full satisfaction of its potential corporate guarantee exposure relating to the Assetsecure receivables purchase agreement with JKF. A bank guarantee of A\$1,000,000 is held as security and available to Assetsecure if it has not been repaid in full by 1 July 2022 – refer note 14.

As at 31 December 2021, \$1,027,000 remained outstanding to be paid to Assetsecure under the agreement.

(v) Atalaya Capital Management ('Atalaya')

The loan facility of \$80,000,000 (31 December 2020: \$80,000,000) was available to fund the US medical lien funding business. The interest and fees payable under the drawn down facility totalled 13.5% per annum (31 December 2020: 13.5%) and the undrawn line fees were 1% (31 December 2020: 1%).

This facility was refinanced by PFG in May 2021 - see footnote (iii) above.

(vi) Other NHF subordinated debt

Three third parties had provided facilities totalling \$4,750,000 (31 December 2020: \$4,750,000) to the medical lien funding business to fund working capital. \$3,000,000 (31 December 2020: \$3,000,000) of this facility had an interest rate of 13.5% per annum, \$250,000 (31 December 2020: \$250,000) of this facility had an interest rate of 13% per annum and \$1,500,000 (31 December 2020: \$1,500,000) of this facility had an interest rate of 13.5% per annum (31 December 2020: 13.5%).

As part of the Company's debt restructure approved by shareholders at the Company's Annual General Meeting on 25 May 2021, these loans were converted to equity – 182,369,022 ordinary shares (pre-share consolidation) were issued to settle this outstanding debt.

(vii) Lucerne Group combined loan

The Lucerne Finance Pty Limited short-term loan facility and the Lucerne Composite Master Fund loan facility were amalgamated during the year ended 30 June 2018 to become the Lucerne Group combined loan. \$8,843,000 was repayable on 15 March 2020 and \$2,799,000 was repayable on 31 December 2020. Ongoing interest payable was 13.5% per annum (31 December 2020: 13.5% (including establishment fees)) on \$8,843,000 (31 December 2020: \$8,843,000). Ongoing interest payable was 15% per annum (31 December 2020: 15%) on \$2,799,000 (31 December 2020: \$2,799,000).

As part of the Company's debt restructure approved by shareholders at the Company's Annual General Meeting on 25 May 2021, these loans were converted to equity – 117,022,578 ordinary shares (pre-share consolidation) were issued to settle this outstanding debt.

(viii) SAF Side Loan 2

Third parties had provided a \$2,441,000 (A\$3,250,000) (31 December 2020: \$2,496,000 (A\$3,250,000)) deferred financing arrangement, giving the Group the ability to defer interest payments payable under the Syndicated Acquisition Facility. This loan was acquired from WHSP on 4 December 2020. Interest payable under this arrangement was 18% per annum (31 December 2020: 18%).

As part of the Company's debt restructure approved by shareholders at the Company's Annual General Meeting on 25 May 2021, these loans were converted to equity – 89,860,479 ordinary shares (pre-share consolidation) were issued to settle this outstanding debt.

Note 19. Borrowings (continued)

(ix) SAF Side Loan 1

Third parties had provided a \$2,330,000 (A\$3,096,000) (31 December 2020: \$2,130,000 (A\$2,773,000)) loan to the Group. This loan was acquired from Washington H Soul Pattinson & Company Limited ('WHSP') on 4 December 2020. Interest payable under this loan was 18% per annum (31 December 2020: 18%).

As part of the Company's debt restructure approved by shareholders at the Company's Annual General Meeting on 25 May 2021, these loans were converted to equity – 85,602,474 ordinary shares (pre-share consolidation) were issued to settle this outstanding debt.

(x) Other NHF subordinated debt

A third party had provided a \$1,475,000 facility (31 December 2020: \$1,410,000) to fund working capital of the business. Interest payable under this facility was 24% per annum (31 December 2020: 24%).

As part of the Company's debt restructure approved by shareholders at the Company's Annual General Meeting on 25 May 2021, these loans were converted to equity – 48,495,341 ordinary shares (pre-share consolidation) were issued to settle this outstanding debt.

(xi) Convertible bonds payable

On 15 July 2016, the Company issued 50,000 convertible bonds, each with a face value of A\$100. The total consideration received from the convertible bonds was \$3,695,500 (A\$5,000,000). Interest payments were cumulative and payable at 11.5% per annum (31 December 2020: 11.5%), quarterly in arrears.

The convertible bonds were categorised as a liability in the statement of financial position due to the terms of the anti-dilution clauses. Due to the conversion feature the convertible bonds were considered to include a derivative liability. As such the convertible bonds were considered to represent a liability with an equity conversion option derivative with the entire instrument being accounted for at fair value through profit or loss.

As part of the Company's debt restructure approved by shareholders at the Company's Annual General Meeting on 25 May 2021, these convertible bonds were converted to equity – 38,091,751 ordinary shares (pre-share consolidation) were issued to settle this outstanding debt.

(xii) Other NHF subordinated debt

A third party had provided a \$1,000,000 facility to NHF (31 December 2020: \$1,000,000). Interest was payable at 12% per annum (31 December 2020: 12%).

As part of the Company's debt restructure approved by shareholders at the Company's Annual General Meeting on 25 May 2021, these loans were converted to equity – 38,337,036 ordinary shares (pre-share consolidation) were issued to settle this outstanding debt.

(xiii) Principis Master Fund facility - US medical lien funding business

Principis Master Fund previously provided facilities of \$434,000 (31 December 2020: \$415,000) with an interest rate of 13.5% per annum (31 December 2020: 13.5%).

As part of the Company's debt restructure approved by shareholders at the Company's Annual General Meeting on 25 May 2021, 50% of this facility was forgiven, and the balance of this facility was converted to equity – 21,546,154 ordinary shares (pre-share consolidation) were issued to settle this outstanding debt.

(xiv) Paycheck Protection Program loan ('PPP Loan')

The PPP Loan was made available by the U.S. Small Business Administration. The PPP Loan was made available to US businesses in order to help bridge the economic gap that arose during the COVID-19 pandemic and is to be utilised mainly for payroll (60%) and rent, mortgage interest payments and utilities (40%). The Group has 24 weeks to utilise all the funds from the date the loan proceeds were received. The Company received the loan funds on 17 April 2020.

Interest payable is 1% per annum until the loan is repaid in full or forgiven under various US loan forgiveness programs. The Company applied for, and successfully received forgiveness of the loan in March 2021 and September 2021. The write-off of this loan was accounted for in the statement of profit or loss as other revenue – refer to note 6.

Note 19. Borrowings (continued)

The Company received a second PPP Loan of \$507,935 in March 2021, under the same terms and conditions as the first PPP Loan. This loan was forgiven in September 2021.

(xv) Convertible Promissory Note

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 Convertible Promissory Note must be converted by 10 September 2022.

(xvi) 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 2020: 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.

Financing arrangements

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

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
Total facilities		
Efficient Frontier Investing (a)	25,550	25,550
Syndicated acquisition facility (b)	17,681	32,252
Partners for Growth (c)	30,000	-
Assetsecure Pty Limited loan (d)	-	30,716
Atalaya Capital Management (e)	-	80,000
	73,231	168,518
Used at the reporting date		
Efficient Frontier Investing (a)	23,327	25,266
Syndicated acquisition facility (b)	17,681	32,252
Partners for Growth (c)	15,963	-
Assetsecure Pty Limited loan (d)	-	17,017
Atalaya Capital Management (e)	-	17,012
	56,971	91,547
Unused at the reporting date		
Efficient Frontier Investing (a)	2,223	284
Syndicated acquisition facility (b)	-	-
Partners for Growth (c)	14,037	-
Assetsecure Pty Limited loan (d)	-	13,699
Atalaya Capital Management (e)	-	62,988
	16,260	76,971

(a) This facility does not have a redraw option.

(b) This facility excludes capitalised interest of \$414,000 (31 December 2020: \$4,464,000).

(c) The facility can be drawn-down based upon various calculations relating to the underlying medical lien funding receivables. As at 31 December 2021, \$nil could be drawn down as a result of these calculations (31 December 2020: n/a).

(d) The facility is now under the control of the secured lender and forms part of the Discontinued Operations refer to note 9.

(e) The facility has been repaid in the current period.

Note 20. Issued capital

	31 Dec 2021 Shares	31 Dec 2020 Shares	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
Ordinary shares - fully paid	40,770,740	1,170,230,045	97,626	61,310

Movements in ordinary share capital

Details	Date	Shares	US\$'000
Balance	1 January 2020	561,760,467	40,924
Issue of shares - rights issue (i)	21 February 2020	330,923,639	13,957
Issue of shares - conversion of convertible bonds (ii)	2 April 2020	819,090	33
Issue of shares - litigation settlement (iii)	2 April 2020	14,000,000	558
Issue of shares - conversion of convertible bonds (iv)	20 May 2020	59,126,849	2,451
Issue of shares - placement (v)	14 December 2020	203,600,000	3,831
Share issue costs			(444)
Balance	31 December 2020	1,170,230,045	61,310
Issue of shares - placement (vi)	28 May 2021	1,273,258,048	12,835
Issue of shares - debt to equity restructure (vii)	28 May 2021	1,505,405,083	24,128
Issue of shares - share issue costs (viii)	28 May 2021	32,037,860	(322)
Issue of shares - remuneration shares (ix)	2 June 2021	2,500,000	-
Issue of shares - placement (x)	2 June 2021	2,700,000	51
Share consolidation (100:1) (xi)	9 June 2021	(3,946,269,507)	-
Issue of shares - share purchase plan (xii)	24 June 2021	909,211	629
Share issue costs			(1,005)
Balance	31 December 2021	40,770,740	97,626

- (i) Issue price of US\$0.042 per share
- (ii) Conversion of convertible bonds at US\$0.040 per share
- (iii) Issue price of US\$0.040 per share
- (iv) Conversion of convertible bonds at US\$0.041 per share
- (v) Issue price of US\$0.019 per share
- (vi) Issue price A\$0.013 (US\$0.0098) per share
- (vii) Debt to equity conversion at A\$0.021 (US\$0.0158) per share (refer to note 22)
- (viii) Capital raising fee paid in shares, issue price of A\$0.013 (US\$0.0098) per share
- (ix) Issue of shares to key management personnel for \$nil consideration - Resolution 5 at Company's 2021 AGM
- (x) Issue price of A\$0.025 (US\$0.0188) per share - Resolution 19 at Company's 2021 AGM
- (xi) Consolidation of shares - 1 share for every 100 shares held at 9 June 2021 - Resolution 2 at Company's 2021 AGM
- (xii) Issue price of A\$0.920 (US\$0.6909) per share

Ordinary shares

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

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

There are 13,617,687 (2020: 215,097,403) ordinary shares escrowed at 31 December 2021.

Options

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

Note 20. Issued capital (continued)

Performance rights

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

Convertible bonds

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

Warrants

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

Share buy-back

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

Capital risk management

Management controls the capital of the Group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital and financial liabilities, supported by financial assets.

As part of the Partners for Growth facility, it requires National Health Finance to hold a minimum cash of \$1,000,000 as part of their covenant. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

Note 21. Capitalising converting notes

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
Capitalising converting notes	<u>14,832</u>	<u>13,933</u>

On 9 June 2020, the Company issued 188,972,861 Capitalising converting notes ('CCNs') 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. Interest accrues and capitalises on the CCNs to the benefit of the noteholder at 6% per annum whereby the principal and interest is convertible into ordinary shares, and not payable in cash. The CCNs do not entitle the noteholders to participate in dividends or to vote at a meeting of the Company.

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 223,414,026 (on a pre-share consolidation basis), 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. During the year, US\$911,000 (A\$1,217,000) of capitalised interest was transferred into equity (31 December 2020: US\$652,000 (A\$935,000)).

Note 22. Reserves

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
Foreign currency reserve	1,079	(898)
Share-based payments reserve	6,355	6,118
Restructuring reserve	<u>18,910</u>	<u>-</u>
	<u>26,344</u>	<u>5,220</u>

Note 22. Reserves (continued)

Foreign currency reserve

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

Share-based payments reserve

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

Restructuring reserve

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

Movements in reserves

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

Consolidated	Foreign currency US\$'000	Share-based payments US\$'000	Restructuring US\$'000	Total US\$'000
Balance at 1 January 2020	782	5,996	-	6,778
Foreign currency translation	(1,680)	-	-	(1,680)
Share-based payments	-	122	-	122
Balance at 31 December 2020	(898)	6,118	-	5,220
Foreign currency translation	1,977	-	-	1,977
Restructuring gain on debt to equity conversion*	-	-	18,910	18,910
Share-based payments	-	237	-	237
Balance at 31 December 2021	<u>1,079</u>	<u>6,355</u>	<u>18,910</u>	<u>26,344</u>

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

Note 23. Dividends

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

Note 24. Financial instruments

Financial risk management objectives

The Group's principal financial instruments comprise cash and short-term deposits, receivables and payables and its finance facilities.

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting its future financial security.

The main risks arising from the Group's financial instruments are market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and currencies and assessments of market forecasts for interest rates and foreign currencies. Ageing analyses and monitoring of receivables using an expected credit loss matrix are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Note 24. Financial instruments (continued)

Market risk

Foreign currency risk

Foreign currency risk arises from investments and borrowings that are denominated in a currency other than the functional currencies of the entities within the Group. These are Australian dollars and United States dollars based on country of operation of the entities within the Group.

In addition, the Group is exposed to non-financial instrument risk on the translation of these entities from their functional currency to the presentation currency of United States dollars. This presentation risk is separate to the foreign currency risk dealt with here.

The Group does not hedge any foreign currency risks as those currency positions are considered to be long-term in nature.

The carrying amount of the Group's foreign currency denominated financial assets at the reporting date was as follows:

Consolidated	Assets		Liabilities	
	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
Australian dollars	3,835	19,883	(19,025)	(77,165)
United States dollars	43,688	55,520	(39,620)	(56,575)
	<u>47,523</u>	<u>75,403</u>	<u>(58,645)</u>	<u>(133,740)</u>

The Group had net liabilities denominated in foreign currencies of US\$11,122,000 (US\$47,523,000 less liabilities of US\$58,645,000) as at 31 December 2021 (2020: net liabilities of US\$58,337,000 (US\$75,403,000 less liabilities of US\$133,740,000)).

Based on this exposure, had the USD weakened/strengthened by 10% (2020: weakened/strengthened by 10%) against the \$A with all other variables held constant, the Group's profit before tax for the year and equity would have been affected as follows:

Consolidated - 31 Dec 2021	% change	USD strengthened		% change	USD weakened	
		Effect on profit before tax US\$'000	Effect on equity US\$'000		Effect on profit before tax US\$'000	Effect on equity US\$'000
Australian dollars	10%	<u>1,519</u>	<u>1,519</u>	10%	<u>(1,519)</u>	<u>(1,519)</u>

Consolidated - 31 Dec 2020	% change	USD strengthened		% change	USD weakened	
		Effect on profit before tax US\$'000	Effect on equity US\$'000		Effect on profit before tax US\$'000	Effect on equity US\$'000
Australian dollars	10%	<u>5,728</u>	<u>5,728</u>	10%	<u>(5,728)</u>	<u>(5,728)</u>

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date.

Price risk

The Group is not exposed to any significant price risk.

Note 24. Financial instruments (continued)

Interest rate risk

The Group's main interest rate risk arises from borrowings and cash and cash equivalents. The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market rates and the effective weighted average interest rates on financial liabilities, is as follows:

	31 Dec 2021 Weighted average interest rate %	31 Dec 2021 Balance US\$'000	31 Dec 2020 Weighted average interest rate %	31 Dec 2020 Balance US\$'000
Efficient Frontier Investing	12.50%	23,327	12.50%	25,266
Syndicated acquisition facility	9.50%	17,681	13.36%	36,716
Partners for Growth	11.25%	13,935	-	-
Assetsecure Pty Limited loan	-	1,027	8.41%	17,017
Atalaya Capital Management	-	-	14.38%	17,012
Other NHF subordinated debt	-	-	13.47%	4,750
Lucerne Group combined loan	-	-	18.99%	3,684
SAF Side Loan 2	-	-	18.00%	2,496
SAF Side Loan 1	-	-	18.00%	2,130
Other NHF subordinated debt	-	-	24.00%	1,410
Convertible bonds payable	-	-	11.50%	1,233
Other NHF subordinated debt	-	-	12.00%	1,000
Paycheck Protection Program loan	-	-	1.00%	605
Principis Master Fund facility - US medical lien funding business	-	-	13.50%	415
Convertible Promissory note	-	16	-	-
Economic Injury Disaster Relief loan	3.75%	146	3.75%	150
Insurance financing - Australia	-	-	5.06%	27
Credit cards	-	9	15.04%	19
Cash and cash equivalents	-	<u>(5,101)</u>	0.02%	<u>(5,351)</u>
Net exposure to cash flow interest rate risk		<u>51,040</u>		<u>108,579</u>

The weighted average interest rate for the period ended 31 December 2021 was 10.07% (2020: 13.53%).

The Group has net interest-bearing liabilities and therefore income and operating cash flows are subject to changes in the market rates. The Group regularly analyses its interest rate exposure. Within this analysis consideration is given to expected interest rate movements and the Group's future cash requirements, potential renewals of existing positions, alternative financing, and the mix of fixed and variable interest rates. A movement in interest rates of +/-100 basis points will result in less than a +/-US\$582,000 (2020: US\$1,107,000) impact on the Group's results and operating cash flows.

Credit risk

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents and receivables.

Cash and cash equivalents comprise of cash on hand and demand deposits. The Group limits its credit risk by holding cash balances and demand deposits with reputable counterparties with acceptable credit ratings.

Note 24. Financial instruments (continued)

Receivables for the US medical lien funding division are held with licensed lawyers who have a fiduciary duty to protect the receivable. The Group transacts with in excess of 2,000 law firms and limits its credit risk by ensuring that the lawyer has a valid and active license to practice law in their respective State. Settlement funds are required to be deposited into the law firms' trust accounts where State Bar rules and regulations apply, protecting the funds from mismanagement.

Liquidity risk

Refer to Note 2 – 'Going concern'.

Management continually reviews the Group's liquidity position, including the preparation of cash flow forecasts, to determine the forecast liquidity position and to maintain appropriate liquidity levels.

Remaining contractual maturities

The following are the remaining contractual maturities as at the reporting date. The amounts are gross and undiscounted and include contractual interest payments and exclude the impact of netting agreements.

Consolidated - 31 Dec 2021	Weighted average interest rate %	1 year or less US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000	Remaining contractual maturities US\$'000
<i>Non-interest bearing:</i>						
Trade and other payables	-	1,442	-	-	-	1,442
<i>Interest bearing:</i>						
Efficient Frontier Investing*	12.50%	2,918	26,048	-	-	28,966
Syndicated acquisition facility	9.50%	1,679	1,679	21,452	-	24,810
Partners for Growth*	11.25%	1,568	1,568	14,381	-	17,517
Assetsecure Pty Limited loan	-	1,026	-	-	-	1,026
Convertible Promissory Note	-	16	-	-	-	16
Economic Injury Disaster Relief loan	3.75%	5	5	16	280	306
Credit cards	-	8	-	-	-	8
Lease liabilities	7.50%	107	12	196	-	315
		<u>8,769</u>	<u>29,312</u>	<u>36,045</u>	<u>280</u>	<u>74,406</u>

* Refer to note 19 and the technical breaches of these facilities – the above remaining contractual maturities are as expected once the breaches have been rectified.

Note 24. Financial instruments (continued)

Remaining contractual maturities

The following are the remaining contractual maturities as at the reporting date. The amounts are gross, undiscounted and include contractual interest payments and exclude the impact of netting agreements.

Consolidated - 31 Dec 2020	Weighted average interest rate %	1 year or less US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000	Remaining contractual maturities US\$'000
<i>Non-interest bearing:</i>						
Trade and other payables	-	5,116	-	-	-	5,116
<i>Interest bearing:</i>						
Assetsecure Pty Limited loan*	8.41%	1,498	18,137	-	-	19,635
Efficient Frontier Investing*	12.50%	3,158	3,158	28,182	-	34,498
Convertible bonds payable	11.50%	1,375	-	-	-	1,375
Lucerne Group combined loan	18.99%	4,383	-	-	-	4,383
Principis Master Fund facility - US medical lien funding business	13.50%	471	-	-	-	471
Other NHF subordinated debt	24.00%	1,439	-	-	-	1,439
Other NHF subordinated debt	12.00%	120	120	1,240	-	1,480
Other NHF subordinated debt	13.47%	5,289	-	-	-	5,289
Insurance financing - Australia	5.06%	27	-	-	-	27
Syndicated acquisition facility*	13.36%	4,907	40,359	-	-	45,266
SAF Side Loan 1*	18.00%	2,328	-	-	-	2,328
SAF Side Loan 2*	18.00%	2,945	-	-	-	2,945
Paycheck Protection Program loan	1.00%	6	607	-	-	613
Atalaya Capital Management Economic Injury Disaster Relief loan	3.75%	6	6	17	294	323
Credit cards	15.04%	22	-	-	-	22
Lease liabilities	6.88%	452	194	189	868	1,703
		<u>36,009</u>	<u>80,370</u>	<u>29,628</u>	<u>1,162</u>	<u>147,169</u>

* Refer to note 19 and the technical breaches of these facilities – the above remaining contractual maturities are as expected once the breaches have been rectified.

Note 25. Fair value measurement

Fair value measurement hierarchy for assets

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Consolidated - 31 Dec 2021	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<i>Assets measured at fair value:</i>				
Loan receivables - disbursement funding - Australia	-	-	-	-
Total assets	-	-	-	-

Note 25. Fair value measurement (continued)

Consolidated - 31 Dec 2020	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<i>Assets measured at fair value:</i>				
Loan receivables - disbursement funding - Australia	-	-	18,006	18,006
Total assets	-	-	18,006	18,006

The above Loan receivables are shown excluding the adjustment for the unrecognised day 1 margin.

The Loan receivables now form part of the Discontinued Operations refer to note 9.

Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements of loan receivables categorised within Level 3 of the fair value hierarchy are as shown below.

The actuarial valuation involves:

- Analysis of historical collections data;
- Setting assumptions based on the experience of historical collections data (including repayment patterns, proportion of write-offs and discounts);
- Application of assumptions to the open receivables in order to project the future repayments over the expected life of the contracts;
- Discounting the projected repayments for the open receivables using an appropriate discount rate to the valuation date;
- Calculation of the fair value of the invoices taking into account the discounted repayments which have allowed for discounts and write-offs and credit risk; and
- Calculation of the day 1 margin and its systematic recognition within profit or loss over the expected term of the arrangement is based on the profile of cash collections and the subsequent weighted average calculation of these collections applied to the recognition of the day 1 margin.

The key assumptions include:

- The discount rate is calculated at a margin of 4% over the 3 year non-financial corporate A-rate bond. The discount rate is n/a% (2020: 4.45%); and
- The write-off assumption allows for cases closed without collection of any amounts on the invoices and the discount assumption reflects discounts given to legal firms for reasons such as early settlements of invoices or the application of discretion by Management. The overall write-off/discount rate applied is n/a% (2020: 14.9%).

Loan receivables fair value measurement – valuation process

Valuations were performed on a half-yearly basis. For the purpose of the valuation, management collated the inputs and data required to be applied in the valuations. Management performed a reconciliation of the fair value based on the valuation results and as part of the reconciliation process reviewed any unusual movements noted.

Note 25. Fair value measurement (continued)

Reconciliation of fair value measurement of the Loan receivables and deferred day 1 margin is set out below:

Consolidated	Fair value US\$'000	Deferred day 1 margin US\$'000	Total US\$'000
Balance at 1 January 2020	24,921	(2,738)	22,183
Cash disbursements in relation to new loans	2,194	-	2,194
New day 1 margin	-	(1,196)	(1,196)
Cash collections - disbursement funding	(11,629)	-	(11,629)
Losses recognised in profit or loss	(242)	-	(242)
Amortisation of day 1 margin	-	2,249	2,249
Exchange rate movement	2,762	(198)	2,564
Balance at 31 December 2020	18,006	(1,883)	16,123
Gains recognised in profit or loss	335	-	335
New day 1 margin	-	(182)	(182)
Cash collections - disbursement funding	(2,176)	-	(2,176)
Amortisation of day 1 margin	-	569	569
Discontinued operations	(16,165)	1,496	(14,669)
Balance at 31 December 2021	-	-	-

This reconciliation excludes other receivables and short-term loans.

There were no transfers into or out of Level 3 of the fair value hierarchy during the financial year.

The Loan receivables - disbursement funding - Australia (gross) balance was US\$nil as at 31 December 2021 (2020: US\$26,577,000).

Note 26. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel ('KMP') of the Group is set out below:

	Consolidated 31 Dec 2021 US\$	31 Dec 2020 US\$
Short-term employee benefits	1,428,478	1,674,775
Post-employment benefits	92,767	50,156
Termination benefits	106,174	-
Share-based payments	184,498	-
	<u>1,811,917</u>	<u>1,724,931</u>

The above figures include amounts paid to companies related to directors for the service and/or director fees payable to directors.

Note 27. Remuneration of auditors

During the financial period, the following fees were paid or payable for services provided by Stantons International ('Stantons'), the auditor of the Company, and Spielman Koenigsberg & Parker, LLP ('SKP'), the auditor of NHF:

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$	US\$
<i>Audit services - Stantons</i>		
Audit or review of the financial statements	106,581	121,541
<i>Other services - Stantons</i>		
Other corporate services	11,672	5,649
	<u>118,253</u>	<u>127,190</u>
<i>Audit services - SKP</i>		
Audit or review of the financial statements	-	13,983

Note 28. Contingent liabilities

Litigation funding agreements

In certain jurisdictions litigation funding agreements contain an undertaking from the legal entity ('the funding entity') that is funding the litigation that it will pay adverse costs awarded to the successful party in respect of costs incurred during the period of funding, should the client's litigation be unsuccessful. It is not possible to predict in which cases such an award might be made or the quantum of such awards. In general terms an award of adverse costs to a defendant will approximate 70% (2020: 70%) of the amount paid by the plaintiff to pursue the litigation (although in some cases there may be more than one defendant). In all outstanding cases the particular funding entity has taken out adverse cost order insurance policies to meet the costs of adverse cost orders, however, there is a risk that in some cases that the insurance cover is insufficient to meet the cost of any adverse cost order, in full.

No contingent liability arose during the period 1 January 2021 to the date of completion of the sale of the litigation portfolio on 24 June 2021 (refer to note 9). From the date the sale is completed, the funding entities will no longer be part of the Group and as such the costs will cease to be a contingent liability of the Group as they will still be contingent liabilities of the funding entities.

Litigation against NHF

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 31 December 2021.

NHF is also involved with litigation that was commenced in Oklahoma in 2019. The proceedings relate to a patient of a medical provider that sold various receivables to NHF. The proceeding is being defended as the lien is a legal contract, binding upon the patient. NHF also has an indemnity clause with the medical provider. As such, NHF believes there will be no amounts payable to the plaintiff. There has been no change to the status of this case since 31 December 2021.

NHF is involved in litigation that was commenced in Michigan in 2020. 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 proceeding is being defended as having no basis in fact or proof, as NHF is not a medical provider of care. As such, NHF believes there will be no amounts payable to the plaintiff.

Note 29. Commitments

The Group had no capital commitments for property, plant and equipment as at 31 December 2021 and 31 December 2020.

Note 30. Related party transactions

Parent entity

LawFinance Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 32.

Key management personnel

Disclosures relating to key management personnel are set out in note 26 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$	US\$
<i>Other related parties - expenses:</i>		
Lucerne Group - interest on borrowings*	35,043	736,116
Multus Medical LLC - cost of sales	-	2,200
Diane Jones - Convertible Bond Interest	-	940
<i>Other related parties - income:</i>		
Multus Medical LLC - office rental	65,573	64,341
Multus Medical LLC - staff and administration costs	-	18,994
Wattel & York - staff costs	-	5,205
David Wattel - interest adjustment on vendor loan	-	761,423
Mark Siegel - interest adjustment on vendor loan	-	761,423
David Wattel - fair value adjustment - Notes Payable	-	4,500,000
Mark Siegel - fair value adjustment - Notes Payable	-	4,500,000
David Wattel & Mark Siegel - fair value adjustment - Vendor Loan	-	10,602,241

* Current year interest was not paid and converted to equity as part of the restructure.

Lucerne Group manages funds on behalf of third parties. Anthony Murphy is the Chief Executive Officer of Lucerne Investment Partners, part of the Lucerne Group.

David Wattel is a director of Multus Medical LLC, a company that specialises in creating 3-Dimensional anatomical schematics from standardised MRI data. This company also provides services to patients to assist in their personal injury insurance claims, and NHF fund the cost of these services. David is also a founding member of Wattel & York – Attorneys at Law, a personal injury and property damage law firm.

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$	US\$
<i>Current payables to other related parties:</i>		
Desiree Wattel - Convertible Promissory Note	16,149	-
Lucerne Group	-	126,703
David and Desiree Wattel	-	92,542

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date, except for the facilities with the Lucerne Group and the NHF Vendors/Founders as detailed in note 19.

Note 30. Related party transactions (continued)

There were also borrowings factored into the sale of the Litigation funding business to Legal Equity Partners Pty Limited, as detailed in note 9 'Discontinued operations'.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 31. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
Loss after income tax	(20,777)	(109,317)
Total comprehensive loss	(20,777)	(109,317)

Statement of financial position

	Parent	
	31 Dec 2021 US\$'000	31 Dec 2020 US\$'000
Total current assets	3,945	3,418
Total assets	3,945	3,401
Total current liabilities	1,347	47,880
Total liabilities	19,028	49,439
Net liabilities	<u>(15,083)</u>	<u>(46,038)</u>
Equity		
Issued capital	97,647	59,353
Capitalising converting notes	14,832	13,933
Foreign currency reserve	2,338	8,524
Share-based payments reserve	6,355	6,044
Restructuring reserve	18,414	-
Accumulated losses	(154,669)	(133,892)
Total deficiency	<u>(15,083)</u>	<u>(46,038)</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Except as described in note 19 and note 28, the parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2021 and 31 December 2020.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2021 and 31 December 2020 other than those disclosed in note 28.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2021 and 31 December 2020.

Note 31. Parent entity information (continued)

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 32. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 Dec 2021 %	31 Dec 2020 %
JustKapital Litigation Insurance Pty Limited	Australia	100.00%	100.00%
JustKapital Co-Funding No 1 Pty Limited	Australia	100.00%	100.00%
JustKapital STL Pty Limited	Australia	100.00%	100.00%
JustKapital NHF USA Holdings, LLC	USA	100.00%	100.00%
JustKapital NHF Holdings Pty Limited	Australia	100.00%	100.00%
National Health Finance HoldCo, LLC	USA	100.00%	100.00%
JustKapital Financing Pty Limited (note 9)	Australia	-	100.00%
JustKapital Litigation Pty Limited (note 9)	Australia	-	100.00%
JustKapital Portfolio Pty Limited (note 9)	Australia	-	100.00%

Subsidiaries of National Health Finance HoldCo, LLC

Accident Medical Funding, LLC	USA	71.00%	71.00%
Apex Injury Network, LLC	USA	75.00%	75.00%
Arizona Injury Medical Specialists, LLC	USA	75.00%	75.00%
Ark-La-Tex Injury Network, LLC	USA	75.00%	75.00%
Atlanta Health Funding, LLC	USA	75.00%	75.00%
Auto Medical Funding, LLC	USA	75.00%	75.00%
Bakersfield Injury Network, LLC	USA	75.00%	75.00%
Balboa Medical Funding, LLC	USA	75.00%	75.00%
Bay Area Medical Finance, LLC	USA	75.00%	75.00%
Bayou Health Finance, LLC	USA	99.00%	99.00%
California Health Finance, LLC	USA	50.50%	50.50%
California Legal Medical Funding, LLC	USA	68.00%	68.00%
Central Coast Injury Network, LLC	USA	72.50%	72.50%
Classic City Injury Solutions, LLC	USA	72.50%	72.50%
Coast Medical Finance, LLC	USA	75.00%	75.00%
Complete Health Network, LLC	USA	48.50%	48.50%
Cordova Injury Network, LLC	USA	75.00%	75.00%
Desert Sky Medical Funding, LLC	USA	75.00%	75.00%
DFW Medical Finance, LLC	USA	90.50%	90.50%
East Bay Medical Finance, LLC	USA	72.50%	72.50%
Florida Healthcare Finance, LLC	USA	75.00%	75.00%
Fresno Injury Treatment Network, LLC	USA	75.00%	75.00%
Georgia Injury Treatment Network, LLC	USA	71.50%	71.50%
Great Salt Lake Medical Finance, LLC	USA	89.00%	89.00%
Greater Houston Medical Funding, LLC	USA	75.00%	75.00%
GTI Medical Funding, LLC	USA	75.00%	75.00%
HALO Medical Funding, LLC	USA	75.00%	75.00%
Healthcare Affiliates of Florida, LLC	USA	75.00%	75.00%
Hospital Capital Partners, LLC	USA	82.50%	80.00%
Illinois Injury Solutions, LLC	USA	87.00%	87.00%

Note 32. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 Dec 2021 %	31 Dec 2020 %
Injury Health Alliance, LLC	USA	70.00%	70.00%
Injury Medical Network, LLC	USA	67.00%	67.00%
Inland Empire Medical Funding, LLC	USA	75.00%	75.00%
Kentucky Injury Network, LLC	USA	75.00%	75.00%
Lone Star Lien Solutions, LLC	USA	75.00%	75.00%
Louisiana HealthNet Solutions, LLC	USA	73.00%	73.00%
Medical Financial Group, LLC	USA	70.00%	70.00%
Metroplex Medical Finance, LLC	USA	70.00%	70.00%
Monument Medical Funding, LLC	USA	75.00%	75.00%
Mountain Medical Finance, LLC	USA	78.00%	78.00%
Mountain West Medical Funding, LLC	USA	75.00%	75.00%
MSP Payment Solutions, LLC	USA	70.00%	70.00%
Nashville Injury Network, LLC	USA	75.00%	75.00%
National Health Finance DM, LLC	USA	100.00%	100.00%
National Health Finance of Florida, LLC	USA	100.00%	100.00%
National Health Finance of Florida 2, LLC	USA	76.00%	76.00%
National Health Finance WA, LLC	USA	75.00%	75.00%
National Medical Finance & Assistance, LLC	USA	100.00%	100.00%
Nevada Health Finance, LLC	USA	60.00%	60.00%
Nevada Medical Concierge Services, LLC	USA	75.00%	75.00%
Nevada Orthopedic and Spinal Financing, LLC	USA	75.00%	75.00%
New Mexico Health Finance, LLC	USA	68.00%	68.00%
New Mexico Medical Financing, LLC	USA	49.00%	49.00%
North Carolina Health Finance, LLC	USA	73.00%	73.00%
North Texas Medical Finance, LLC	USA	70.00%	70.00%
Northern Florida Medical Finance, LLC	USA	89.00%	89.00%
NW Health Network, LLC	USA	66.00%	66.00%
Odessa Health Finance, LLC	USA	75.00%	75.00%
Oklahoma Health Finance, LLC	USA	83.00%	83.00%
Oklahoma Injury Network, LLC	USA	71.50%	71.50%
Oklahoma Injury Solutions, LLC	USA	75.00%	75.00%
Old Pueblo Medical Financing of Delaware, LLC	USA	100.00%	100.00%
Old Pueblo Medical Financing, LLC	USA	50.00%	50.00%
ONYX Medical Funding Group, LLC	USA	70.00%	70.00%
Pennsylvania Healthcare Finance, LLC	USA	70.00%	70.00%
Physicians Accident Injury Network, LLC	USA	75.00%	75.00%
Pikes Peak Medical Funding, LLC	USA	75.00%	75.00%
Premier Medical Review, LLC	USA	75.00%	75.00%
Red River Medical Funding, LLC	USA	75.00%	75.00%
Rocky Mountain Medical Finance, LLC	USA	73.00%	73.00%
San Fernando Injury Network, LLC	USA	75.00%	75.00%
Silver State Surgical Solutions, LLC	USA	100.00%	100.00%
Smash Medical Funding, LLC	USA	75.00%	75.00%
SMD Medical Finance, LLC	USA	68.00%	68.00%
Southern California Injury Treatment Network, LLC	USA	99.00%	99.00%
Southern Idaho Medical Funding, LLC	USA	75.00%	75.00%
Southwest Injury Solutions, LLC	USA	73.00%	73.00%
Southwest Medical Financing, LLC	USA	75.00%	75.00%
Surgical Capital Partners, LLC	USA	100.00%	100.00%
Top Tier Injury Solutions, LLC	USA	75.00%	75.00%
Tri Cities Injury Solutions, LLC	USA	75.00%	75.00%
Tristate Medical Finance, LLC	USA	75.00%	75.00%
Waterleaf Medical Finance, LLC	USA	73.00%	73.00%
West Coast Injury Solutions, LLC	USA	75.00%	75.00%

Note 33. Cash flow information

Reconciliation of loss after income tax to net cash (outflow) from operating activities

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
Loss after income tax benefit/(expense) for the year	(21,229)	(78,136)
Adjustments for:		
Depreciation and amortisation	401	666
Share-based payments	184	-
Employee leave provision	(78)	47
Interest income	222	(1,545)
Commissions payable	(32)	(31)
Interest expense	5,053	8,186
Impairment expense - short-term loans	75	479
Impairment expense - goodwill and customer relationships	-	42,387
Net foreign exchange differences	2,975	(5,434)
Fair value gain on financial liabilities	-	(19,602)
Change in operating assets and liabilities:		
Decrease in other receivables	27,934	25,938
Decrease in deferred tax assets	-	12,579
Decrease/(increase) in prepayments	(175)	47
Decrease in trade and other payables	(4,721)	(1,632)
(Decrease)/increase in tax provision	(1,559)	755
(Decrease)/increase in provisions or employee benefits	(110)	74
(Decrease)/increase in borrowings	(21,006)	3,755
Net cash (outflow) from operating activities	<u>(12,066)</u>	<u>(11,467)</u>

Non-cash investing and financing activities

	Consolidated	
	31 Dec 2021	31 Dec 2020
	US\$'000	US\$'000
Additions to the right-of-use assets	262	-
Shares issued (consideration for underwriting)	-	200
Shares issued	41,591	-
	<u>41,853</u>	<u>200</u>

Note 33. Cash flow information (continued)

Changes in liabilities arising from financing activities

Consolidated	Vendor loan - Australian disbursement funding business US\$'000	Convertible bonds payable US\$'000	Lucerne Group combined loan US\$'000	Principis Master Fund facility - US medical lien funding business US\$'000	Paradise Diversified Holdings Limited Partnership US\$'000	Other NHF subordinated debt US\$'000	Other NHF subordinated debt US\$'000	Total US\$'000
Balance at 1 January 2020	315	3,500	11,642	12,122	4,163	1,180	1,000	33,922
Conversion to shares	-	(2,946)	(4,070)	(12,122)	-	-	-	(19,138)
Loans received	-	-	-	550	2,942	-	-	3,492
Loans repaid	(346)	-	-	(151)	(8,100)	-	-	(8,597)
Conversion to Capitalising Converting Note	-	-	(6,017)	-	-	-	-	(6,017)
Capitalised interest	-	339	998	16	995	230	-	2,578
Exchange differences	31	340	1,131	-	-	-	-	1,502
Balance at 31 December 2020	-	1,233	3,684	415	-	1,410	1,000	7,742
Additions	-	-	-	-	-	154	-	154
Debt to equity restructure	-	(1,215)	(3,732)	(434)	-	(1,638)	(1,000)	(8,019)
Capitalised interest	-	51	255	19	-	74	-	399
Exchange differences	-	(69)	(207)	-	-	-	-	(276)
Balance at 31 December 2021	-	-	-	-	-	-	-	-

Note 33. Cash flow information (continued)

Consolidated	Other NHF subordin- ated debt US\$'000	Insurance financing - Australia US\$'000	SAF US\$'000	SAF Side Loan 1 US\$'000	SAF Side Loan 2 US\$'000	NHF Founder Promi- ssory Notes US\$'000	Atalaya US\$'000	Total US\$'000
Balance at 1 January 2020	4,750	33	29,396	1,252	2,275	9,000	41,603	88,309
Loans received	-	88	-	-	-	-	3,141	3,229
Loans repaid	-	(98)	-	-	-	-	(27,732)	(27,830)
Capitalised interest	-	-	4,414	602	-	-	-	5,016
Exchange differences	-	4	2,906	122	221	-	-	3,253
Other changes	-	-	-	154	-	(9,000)	-	(8,846)
Balance at 31 December 2020	4,750	27	36,716	2,130	2,496	-	17,012	63,131
Loans received	-	-	2,746	-	-	-	110	2,856
Interest repayment	-	-	(571)	-	-	-	-	(571)
Loan repaid	-	(25)	-	-	-	-	(1,837)	(1,862)
Refinanced by PFG	-	-	-	-	-	-	(15,285)	(15,285)
Capitalised interest	-	-	2,175	234	-	-	-	2,409
Debt to equity restructure	(4,750)	-	(21,322)	(2,099)	(2,356)	-	-	(30,527)
Exchange differences	-	(2)	(2,063)	(120)	(140)	-	-	(2,325)
Other changes	-	-	-	(145)	-	-	-	(145)
Balance at 31 December 2021	-	-	17,681	-	-	-	-	17,681

Note 33. Cash flow information (continued)

Consolidated	PPP loan US\$'000	Insurance financing - USA US\$'000	Credit cards US\$'000	Asset - secure US\$'000	Vendor loan - NHF Founders US\$'000	EIDL loan US\$'000	EFI US\$'000	Total US\$'000
Balance at 1 January 2020	-	55	103	21,447	13,612	-	-	35,217
Loans received	605	-	183	3,923	-	150	25,550	30,411
Loans repaid	-	(55)	(267)	(10,436)	-	-	(336)	(11,094)
Capitalised interest	-	-	-	-	-	-	52	52
Exchange differences	-	-	-	2,083	1,322	-	-	3,405
Other changes	-	-	-	-	(14,934)	-	-	(14,934)
Balance at 31 December 2020	605	-	19	17,017	-	150	25,266	43,057
Additions	508	-	-	-	-	-	-	508
Loans received	-	106	301	2,045	-	-	-	2,452
Loans repaid	-	(106)	(311)	(2,483)	-	(4)	(2,416)	(5,320)
Capitalised interest	-	-	-	-	-	-	477	477
Exchange differences	-	-	-	(956)	-	-	-	(956)
Other changes	(1,113)	-	-	(14,596)	-	-	-	(15,709)
Balance at 31 December 2021	-	-	9	1,027	-	146	23,327	24,509

	PFG US\$'000	Convertible Promissory Note US\$'000	Lease liabilities US\$'000	Total US\$'000
Balance at 1 January 2020	-	-	1,531	1,531
Repayment of leases	-	-	(245)	(245)
Exchange differences	-	-	(41)	(41)
Balance at 31 December 2020	-	-	1,245	1,245
Additions	-	16	262	278
Repayment of leases	-	-	(305)	(305)
Refinanced Atalaya	15,284	-	-	15,284
Loans received	679	-	-	679
Loans repaid	(2,028)	-	-	(2,028)
Exchange differences	-	-	(16)	(16)
Other changes	-	-	(922)	(922)
Balance at 31 December 2021	13,935	16	264	14,215

Note 34. Share-based payments

Share options

At the 2021 Annual General Meeting held on 25 May 2021, shareholders approved the adoption of the LAW Incentive Plan ('Incentive Plan') and associated Non-Recourse Loan Agreements for directors, officers, employees and consultants ('Participants'). The Incentive Plan, effective from 25 May 2021, replaced the previous Incentive Option Plan and Executive Incentive Plans ('EIP').

Note 34. Share-based payments (continued)

The objectives of the Incentive Plan are to:

- supplement Participant remuneration;
- ensure that the Group's remuneration policy is competitive in retaining and motivating the Participants;
- provide a mechanism for achieving the Group's overarching remuneration objective of aligning the interests of Participants and shareholders; and
- reward Participants based on the Group's overall performance and other businesses and high performance.

Set out below are summaries of options granted under the plans:

31 Dec 2021

Grant date	Expiry date	Exercise price*	Balance at the start of the year	Share consolidation 100:1	Granted	Lapsed/Expired	Balance at the end of the year
13/03/2020	28/09/2021	US\$18.6750	24,000,000	(23,760,000)	-	(240,000)	-
13/03/2020	28/09/2022	US\$29.8790	22,500,000	(22,275,000)	-	-	225,000
13/03/2020	28/09/2023	US\$44.8190	25,000,000	(24,750,000)	-	-	250,000
28/05/2021	19/11/2025	US\$1.8670	-	-	916,667	-	916,667
18/06/2021	08/12/2024	US\$1.8670	-	-	1,300,000	-	1,300,000
			<u>71,500,000</u>	<u>(70,785,000)</u>	<u>2,216,667</u>	<u>(240,000)</u>	<u>2,691,667</u>
Weighted average exercise price			US\$0.3220	US\$0.3260	US\$1.8670	US\$0.1920	US\$8.1980

* Exercise price - A\$25, A\$40, A\$60, A\$2.50 and A\$2.50 respectively after consolidation; and
Exercise price - A\$0.25, A\$0.40, A\$0.60, A\$NA and A\$NA respectively before consolidation.

31 Dec 2020

Grant date	Expiry date	Exercise price*	Balance at the start of the year	Granted	Exercised	Lapsed	Balance at the end of the year
13/03/2020	28/09/2021	US\$0.1920	-	24,000,000	-	-	24,000,000
13/03/2020	28/09/2022	US\$0.3070	-	22,500,000	-	-	22,500,000
13/03/2020	28/09/2023	US\$0.4610	-	25,000,000	-	-	25,000,000
			<u>-</u>	<u>71,500,000</u>	<u>-</u>	<u>-</u>	<u>71,500,000</u>
Weighted average exercise price			US\$0.0000	US\$0.3220	US\$0.0000	US\$0.0000	US\$0.3220

* Exercise price - A\$0.25, A\$0.40 and A\$0.60 respectively.

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	31 Dec 2021 Number	31 Dec 2020 Number
13/03/2020	28/09/2021	-	24,000,000
13/03/2020	28/09/2022	225,000	22,500,000
13/03/2020	28/09/2023	250,000	25,000,000
		<u>475,000</u>	<u>71,500,000</u>

The comparative number of options for the year ended 31 December 2020, disclosed in the above table, are per consolidation.

The weighted average share price during the financial period was US\$0.83 (2020: US\$0.037).

The weighted average remaining contractual life of options outstanding at 31 December 2021 was 2.8 years (2020: 1.76 years).

Note 34. Share-based payments (continued)

Warrants

Set out below are summaries of warrants granted on acquisition of NHF:

31 Dec 2021

Grant date	Expiry date	Exercise price*	Balance at the start of the year	Granted	Share consolidation 100:1	Expired/forfeited/other	Balance at the end of the year
28/09/2018	08/11/2022	US\$10.0840	452,743,636	-	(448,216,198)	-	4,527,438
28/05/2021	28/05/2028	US\$3.2870	-	2	-	-	2
			<u>452,743,636</u>	<u>2</u>	<u>(448,216,198)</u>	<u>-</u>	<u>4,527,440</u>

31 Dec 2020

Grant date	Expiry date	Exercise price*	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
28/09/2018	08/11/2022	US\$0.1040	452,743,636	-	-	-	452,743,636
			<u>452,743,636</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>452,743,636</u>

* Exercise price at 31 December 2021 is A\$13.50 (31 December 2020: A\$0.135) and A\$4.400 respectively

The weighted average remaining contractual life of warrants outstanding at 31 December 2021 was 0.85 years (2020: 1.75 years).

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
28/05/2021	19/11/2025	US\$0.822	US\$1.867	75%	-	0.10%	US\$0.4000
18/06/2021	08/12/2024	US\$0.934	US\$1.867	75%	-	0.10%	US\$0.3220

Shares issued

On the 25 May 2021, shareholders approved and granted Daniel Kleijn 25,000 shares to the value of \$24,277 (A\$32,500) in recognition of his appointment and contributions to the Company to date.

Note 35. Events after the reporting period

Following the EFI Review event in January 2022, EFI may notify SPV III requiring it to negotiate in good faith for a period of 30 days to agree on revised facility terms and if EFI and SPV III are unable to agree revised terms then EFI may demand repayment of the loan within 90 days from the expiry of the negotiation period. It is unclear whether EFI intend to issue this notice to negotiate revised terms or what they may seek in any such negotiation. Refer to note 19.

Partners for Growth have also agreed to waive the two covenant breaches (constituting a review event) subject to certain conditions being agreed to by the Company which occurred in January 2022. Refer to note 19.

Apart from matters as disclosed in the Directors report and in this note, no other matter or circumstance has arisen since 31 December 2021 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.

LawFinance Limited
Directors' declaration
31 December 2021

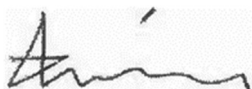
In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board and Australian Accounting standards as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable as stated in the Going Concern section of note 2 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Tim Storey
Chairman

31 March 2022
Sydney

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LAWFINANCE LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Lawfinance Limited the Company and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company 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 (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. At 31 December 2021, the Group had working capital deficiency of \$21,923,000 (31 December 2020 deficiency of \$92,923,000), cash and cash equivalents of \$5,101,000 (31 December 2020 \$4,746,000). The Group had incurred a loss before tax for the half year amounting to \$21,969,000 (31 December 2020 \$50,064,000). The net cash outflow from operating activities for the year was \$12,066,000 (December 2020 \$11,467,000).

The ability of the Group to continue as a going concern is subject to collecting its outstanding medical lien receivables books and continuing support of financiers and compliance with agreements and/or raising further share capital in accordance with its budgeted cashflows. In the event that the Group does not successfully collect its outstanding medical lien books and continuing support of financiers and compliance with agreements and/or raising further share capital, the Group may not be able to meet its liabilities as and when they fall due and the net realisable values of its assets would be significantly lower than its carrying values.

Emphasis of Matter - Carrying value of financial assets

In particular we draw your attention to note 13 (Financial assets at amortised cost) of the financial report which discloses the carrying value of the financial assets at amortised cost of US\$41,442,000 (2020: US\$53,253,000). We also draw your attention to note 3 of the financial report and estimates used by management in the preparation of the financial report. These financial assets may be significantly impaired if the recapitalisation plans of the group as outlined in note 2 are not completed.

Key Audit Matters

In addition to the matter described in the Material Uncertainty Related to Going Concern section and the Emphasis of Matter for Carrying value of the financial assets, we have determined the matter described below to be Key Audit Matters to be communicated in our report.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit
<p><i>Discontinued Operations</i></p> <p>The loss from Discontinued Operations was \$788,000 (31 December 2020 \$15,262,000)</p> <p>On 29 January 2021 the Company entered into a definitive conditional agreement to sell JustKapital Litigation Pty Ltd (and its subsidiaries) for A\$1, plus conditional proceeds equal to: 50% of the net proceeds received from one of the funded cases; and 50% of any excess proceeds after repayment of the secured debt (refer to Note 9).</p> <p>On 30 April 2021, the company appointed administrators to former subsidiary JustKapital Financing Pty Limited. On this date the operations of the former subsidiary were deconsolidated.</p> <p>We determined this to be a key audit matter given the materiality of the amount involved together with the level of judgement required in assessing the final sale price which is subject to conditional proceeds.</p>	<p>Inter alia, our audit procedures included the following:</p> <ol style="list-style-type: none"> I. Obtained agreement to sell JustKapital Litigation Pty Limited and interrogated; II. Checked clients calculations of Assets and liabilities deconsolidated (including those of JustKapital Financing Pty Limited) and determination of the loss from discontinued operations; III. Challenged management's assessment of the value of the conditional component of the sales proceeds to support nil value for the Sale of JustKapital Litigation Pty Limited; and IV. Ascertained compliance with relevant accounting standards and the disclosures included in the annual report (refer note 9).
<p><i>Restructuring gain on debt-to-equity conversion</i></p> <p>The gain on the debt-to-equity conversion was \$18,910,000.</p> <p>During the year the company completed the restructuring of debts by converting debt holders into equity.</p> <p>We determined this to be a key audit matter given the nature of the transaction and the materiality of the amount involved.</p>	<p>Inter alia, our audit procedures included the following:</p> <ol style="list-style-type: none"> I. Obtained agreements with debt holders and agreed conversion terms to the management working papers; II. Obtained management assessment of the value used in the conversion and its compliance with AASB 13– Fair Value Measurement, challenged the assumptions within and ensured accuracy; III. Reviewed the disclosures included in the annual report (refer note 22).

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2021 but don't think they would otherwise we would have an invite as it is does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained

up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in Internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

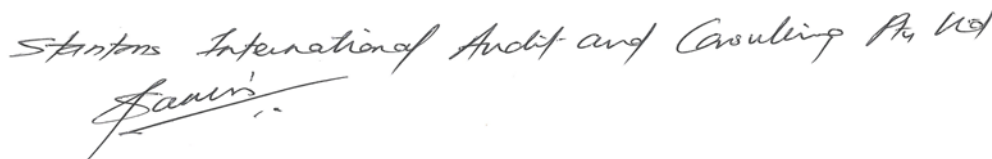
We have audited the Remuneration Report included in pages 10 to 20 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Lawfinance Limited for the year ended 31 December 2021 complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

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



Samir Tirodkar
West Perth, Western Australia
Director
31 March 2022

LawFinance Limited
Shareholder information
31 December 2021

The shareholder information set out below was applicable as at 8 March 2022.

Distribution of equity securities

Analysis of number of equity security holders by size of holding:

	Ordinary shares		Options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	320	0.23	-	-
1,001 to 5,000	123	0.75	-	-
5,001 to 10,000	43	0.83	-	-
10,001 to 100,000	152	13.37	-	-
100,001 and over	58	84.82	6	100.00
	<u>696</u>	<u>100.00</u>	<u>6</u>	<u>100.00</u>
Holding less than a marketable parcel	<u>340</u>	<u>49.00</u>	<u>-</u>	<u>-</u>

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	% of total shares issued
	Number held	
J P Morgan Nominees Australia	5,432,995	13.33
Aquasia Pty Limited (Aquasia Private Invest A/c)	4,777,460	11.72
Principis Master Fund SPC (Lucerne Composite Master A/c)	4,107,900	10.08
CS Fourth Nominees Pty Ltd	2,267,690	5.56
National Nominees Limited	1,932,609	4.74
Australian Philanthropic Services Foundation Pty Limited (APS Foundation A/c)	1,213,879	2.98
Anne Gregerson	1,151,545	2.82
Mr Mark Siegel	1,075,488	2.64
Mr David Wattel	1,075,488	2.64
Contemplator Pty Ltd	612,914	1.50
Ellerston Capital Limited	599,196	1.47
Lucerne Finance Pty Ltd	599,194	1.47
Mickey Clark	575,773	1.41
Ms Snezana Bowden	560,000	1.37
Galloway and Galloway	484,954	1.19
Altor Capital Management Pty Ltd	467,351	1.15
Factotum Group Pty Limited (Factotum Partners A/c)	454,000	1.11
Portfolio Services Pty Ltd	438,768	1.08
Barbright Australia Pty Ltd	409,485	1.00
Equity Trustees Limited	383,371	0.94
	<u>28,620,060</u>	<u>70.20</u>

LawFinance Limited
Shareholder information
31 December 2021

Unquoted equity securities (options)

	Number on issue	Number of holders
Options – exercisable at A\$40.00 cent before 28 September 2022	225,000	2
Options – exercisable at A\$60.00 cent before 28 September 2023	250,000	2
Options – exercisable at A\$2.50 before 19 November 2025	916,667	1
Options – exercisable at A\$2.50 before 8 December 2024	1,300,000	3

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Ordinary shares % of total shares issued
J P Morgan Nominees Australia	5,432,995	13.33
Aquasia Pty Limited (Aquasia Private Invest A/c)	4,777,460	11.72
Principis Master Fund SPC (Lucerne Composite Master A/c)	4,107,900	10.08
CS Fourth Nominees Pty Ltd	2,267,690	5.56

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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

Warrants

Details	Number of warrants
<i>Warrants issued to:</i>	
Other Syndicated Acquisition Facility participants	3,298,800
NHF Founders	1,228,638
Partners for Growth	2
	<hr/>
	4,527,440 <hr/> <hr/>

 LAWFINANCE