LawFinance Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	LawFinance Limited
ABN:	72 088 749 008
Reporting period:	For the half-year ended 30 June 2019
Previous period:	For the half-year ended 30 June 2018

2. Results for announcement to the market

The Group has adopted Accounting Standard AASB 16 'Leases' during the half-year ended 30 June 2019 using the modified retrospective approach and as such comparatives have not been restated. Refer to note 2 for further information.

				US$'000
Revenues from ordinary activities	up	49.4%	to	3,322
Total comprehensive loss for the Group	up	240.2%	to	(7,712)
Loss from ordinary activities after tax attributable to the owners of LawFinance Limited	up	260.4%	to	(7,881)
Loss for the half-year attributable to the owners of LawFinance Limited	up	260.4%	to	(7,881)

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

Comments
The total comprehensive loss for Group amounted to US$7,712,000 (30 June 2018: US$2,267,000).

The loss attributable to the owners of the Group after providing for income tax and non-controlling interest amounted to US$7,881,000 (30 June 2018: US$2,187,000).

The loss in the period mainly relates to the initial impact to the NHF business due to the application of the accounting standards (in particular, AASB 9 'Financial Instruments') which defers Net income from disbursement funding/medical lien funding and is not an accurate reflection of its expected future performance. NHF contributed a loss before tax of US$6,472,000 in the period.

The Statement of Financial Position (Balance Sheet) reflects a carrying value of the Loan receivables of US$101,706,000. There is also an estimated US$8,301,000 classified as “unrecognised day 1 margin” and US$20,103,000 classified as “fair value” under AASB 9, both of which represent future profit to be recognised in the Statement of profit or loss. These three components result in Net Receivables of US$130,110,000 which is a better indication of our on-going operations. This Net Receivables amount represents expected cash collections over the next 3 years.

The Group’s exit from the litigation funding business is expected to be completed within the next 12 months as the cases that are currently funded are completed.

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(8.29)	(6.48)

4. Control gained over entities

Affiliate	Ownership %
Arkansas Injury Network, LLC	75.00%
Classic City Injury Solutions, LLC	72.50%
Coast Medical Finance, LLC	72.50%
Florida Healthcare Finance, LLC	75.00%
Greater Houston Medical Funding, LLC	75.00%
Hospital Capital Partners, LLC	75.00%
Inland Empire Medical Funding, LLC	72.50%
Mountain West Medical Funding, LLC	72.50%
Physicians Accident Injury Network, LLC	72.50%
Premier Medical Review, LLC	75.00%
Smash Medical Funding, LLC	75.00%
Top Tier Injury Solutions, LLC	72.00%
West Coast Injury Solutions, LLC	75.00%
Southwest Injury Solutions, LLC	73.00%
Southwest Medical Financing, LLC	75.00%
Surgical Capital Partners, LLC	100.00%
Tristate Medical Finance, LLC	75.00%
Waterleaf Medical Finance, LLC	71.00%

The above affiliates were added during the current reporting period, and form part of the NHF business.

5. Loss of control over entities

Not applicable.

6. Dividends

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

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

The Group has a joint operation with Longford Capital Management LP ('Longford Capital') where the Group co-invests with Longford Capital in litigation funding. The joint operation is funding one case in the United States on a 50:50 basis. The Group is entitled to its proportionate share of the income received from Litigation Contracts in progress and bears a proportionate share of the joint operations' costs of investment in cases. The total investment by the Group in the joint operation at 30 June 2019 was US$1,160,000 (31 December 2018: US$1,166,000). Longford Capital and the Group are also co-funding six cases in Australia on a 50:50 basis with four of these cases now completed. The total investment by the Group in all co-funded cases in Australia as at 30 June 2019 was US$2,508,000 (31 December 2018: US$2,568,000).

9. Foreign entities

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

All foreign entities are presented in compliance with International Financial Reporting Standards (IFRS).

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10. Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Financial Report.

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11. Attachments

Details of attachments (if any):

The Interim Financial Report of LawFinance Limited for the half-year ended 30 June 2019 is attached.

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12. Signed

Signed ______________________ Date: 30 August 2019

Tim Storey
Chairman
Sydney

LAWFINANCE

2019

Half Year Report

for the six months ended 30 June 2019

ABN 72 088 749 008

LawFinance Limited
Contents
30 June 2019

Directors	Tim Storey - Non-Executive Chairman Diane Jones - Chief Executive Officer, Executive Director Anthony Murphy - Non-Executive Director David Wattel - Executive Director
Company secretary	Dean Jagger
Registered office	Level 16 56 Pitt Street Sydney NSW 2000 Tel: +61 2 9696 0220 Fax: +61 2 9252 3430
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 International Level 2 22 Pitt Street Sydney NSW 2000
Solicitors	Corrs Chambers Westgarth Level 17 8-12 Chiefly Square Sydney NSW 2000
Stock exchange listing	LawFinance Limited shares are listed on the Australian Securities Exchange (ASX code: LAW)
Website	www.lawfinance.com.au

LawFinance Limited
Directors' report
30 June 2019

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' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 30 June 2019.

Directors

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

Tim Storey
Anthony Murphy
Diane Jones
David Wattel

Nature of operations and principal activities

The Group has developed into a diversified provider of financing solutions for law firms. During the financial half-year the principal activities of the Group consisted of:

- Medical lien funding;
- Disbursement funding and short-term funding; and
- Litigation funding, which is being wound down.

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 operations in 21 states in the United States. The medical liens purchased generally relate to the not at fault personal injury victims involved in motor vehicle accidents. 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 on 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 obtain quick 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.

Disbursement funding and short-term funding
The disbursement funding division and short-term funding division have been merged and are referred to as 'JustKapital Finance'.

JustKapital Finance provides finance to law firms to fund the legal disbursements required by lawyers to progress the claims of their clients which the client generally cannot fund themselves. The deferred payment structure offered by JustKapital Finance addresses the immediate and growing market requirement whereby the client or firm cannot, nor may not be willing to, fund disbursements directly. The Group does not fund the legal fees related to the case. The Group pays the disbursements directly, charges a standardised mark-up and immediately invoices the law firm once the disbursements are paid. The Group's invoice becomes payable upon completion of the underlying case, which on average is in about 18 months' time. Discounts may be provided from the invoiced cost if the case concludes quickly or in other exceptional circumstances. The key business driver of the disbursement funding business is to ensure that the law firm client progresses the case within normal parameters. In any given financial period, the profitability of the disbursement funding business is dependent upon revenue and discount levels. Legislative, regulatory, judicial and policy changes may have an impact on future profitability.

JustKapital Finance also provides short-term working capital finance to law firms for a duration of less than 12 months. The short-term facility is only provided to law firms who use JustKapital exclusively for their disbursement funding requirements (where the client of the law firm cannot pay their disbursements). The short-term funding division was established in July 2016 and has been tested successfully since its inception. The Group continues to assess whether there is a large market requirement for this product.

Litigation funding
During the 2018 financial year the Board resolved to exit the litigation funding division. The litigation funding division is capital intensive which created a strain on 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, being the disbursement funding and medical lien funding businesses.

The litigation funding division provided investigation and management services, as well as providing finance to claimants to progress their claim. These services and funding are provided pursuant to a contract with a claimant. The Group does not provide legal advice to any claimant. The key business driver is to manage and fund the litigation to a successful conclusion. If the litigation is successful, the Group earns a fee and will also be reimbursed the costs paid to progress the litigation, both of which are payable from the sums recovered in the litigation. The fee is generally a percentage of the settlement or judgement proceeds. If the litigation is unsuccessful, the Group does not generate any income. In certain jurisdictions, the litigation funding agreement contains an undertaking to the contracted parties that the Group will pay any adverse costs ordered in respect of the costs incurred by the defendant(s) during the period of funding.

Review of operations
The total comprehensive loss for the Group amounted to US$7,712,000 (30 June 2018: US$2,267,000).

The loss attributable to the owners of the Group after providing for income tax and non-controlling interest amounted to US$7,881,000 (30 June 2018: US$2,187,000).

The Statement of Financial Position (Balance Sheet) reflects a carrying value of the Loan receivables of US$101,706,000. There is also an estimated US$8,301,000 classified as "unrecognised day 1 margin" and US$20,103,000 classified as "fair value" under AASB 9, both of which represent future profit to be recognised in the Statement of profit or loss. These three components result in Net Receivables of US$130,110,000 which is a better indication of our on-going operations. This Net Receivables amount represents expected cash collections over the next 3 years.

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

Matters subsequent to the end of the financial half-year
No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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

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

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

On behalf of the directors

Tim Storey
Chairman

30 August 2019
Sydney

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

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

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

30 August 2019

Board of Directors
LawFinance Limited
Suite 1B, Level 16
56 Pitt Street
Sydney NSW 2000

Dear Sirs

RE: LAWFINANCE LIMITED

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

As Audit Director for the review of the financial statements of LawFinance Limited for the half year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(Authorised Audit Company)

Martin Michalik

Martin Michalik
Director

LawFinance Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2019

		Consolidated	
	Note	1 Jan 2019 to 30 Jun 2019 US$'000	1 Jan 2018 to 30 Jun 2018 US$'000
Revenue			
Net income from disbursement funding/medical lien funding	4	3,165	2,019
Other revenue	5	157	205
Total revenue		3,322	2,224
Non-supplier related cost of sales		(756)	(68)
Gross margin		2,566	2,156
Other income	6	581	1,444
Expenses			
Employee benefits expense	7	(2,727)	(911)
Depreciation and amortisation expense	7	(249)	(39)
Impairment of assets	7	(67)	(801)
Administration and other expenses	7	(1,400)	(812)
Business purchase/selling expenses	7	-	(1,088)
Finance costs	7	(9,101)	(2,040)
Lease expenses	7	(74)	-
Loss before income tax (expense)/benefit		(10,471)	(2,091)
Income tax (expense)/benefit		1,973	(96)
Loss after income tax (expense)/benefit for the half-year		(8,498)	(2,187)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		786	(80)
Other comprehensive income/(loss) for the half-year, net of tax		786	(80)
Total comprehensive loss for the half-year		(7,712)	(2,267)
Loss for the half-year is attributable to:			
Non-controlling interest		(617)	-
Owners of LawFinance Limited		(7,881)	(2,187)
		(8,498)	(2,187)
Total comprehensive loss for the half-year is attributable to:			
Non-controlling interest		(617)	-
Owners of LawFinance Limited		(7,095)	(2,267)
		(7,712)	(2,267)
		Cents	Cents
Basic loss per share	23	(1.63)	(1.48)
Diluted loss per share	23	(1.63)	(1.48)

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

LawFinance Limited
Consolidated statement of financial position
As at 30 June 2019

	Note	Consolidated 30 Jun 2019 US$'000	Consolidated 31 Dec 2018 US$'000
Assets			
Current assets			
Cash and cash equivalents	8	2,757	3,696
Loan and other receivables	9	34,818	29,883
Prepayments		123	67
Total current assets		37,698	33,646
Non-current assets			
Loan and other receivables	10	68,800	69,438
Investments held in joint operations	11	1,160	1,166
Property, plant and equipment	12	212	198
Right-of-use assets	13	1,156	-
Goodwill	14	40,517	40,539
Other intangibles	15	8,689	8,784
Deferred tax		8,731	6,789
Total non-current assets		129,265	126,914
Total assets		166,963	160,560
Liabilities			
Current liabilities			
Trade and other payables	16	10,107	11,649
Borrowings	17	30,544	19,602
Lease liabilities - right-of-use assets		135	-
Employee benefits		232	215
Total current liabilities		41,018	31,466
Non-current liabilities			
Borrowings	18	115,777	111,120
Lease liabilities - right-of-use assets		1,046	-
Total non-current liabilities		116,823	111,120
Total liabilities		157,841	142,586
Net assets		9,122	17,974
Equity			
Issued capital	19	37,649	37,649
Reserves	20	6,784	5,998
Accumulated losses		(34,092)	(26,197)
Equity attributable to the owners of LawFinance Limited		10,341	17,450
Non-controlling interest		(1,219)	524
Total equity		9,122	17,974

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

LawFinance Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2019

Consolidated	Issued capital US$'000	Reserves US$'000	Accumulated losses US$'000	Non-controlling interest US$'000	Total equity US$'000
Balance at 1 January 2018	18,421	1,201	(12,783)	-	6,839
Loss after income tax expense for the half-year	-	-	(2,187)	-	(2,187)
Other comprehensive loss for the half-year, net of tax	-	(80)	-	-	(80)
Total comprehensive loss for the half-year	-	(80)	(2,187)	-	(2,267)
Transactions with owners in their capacity as owners:					
Share-based payments	-	63	-	-	63
Balance at 30 June 2018	18,421	1,184	(14,970)	-	4,635

Consolidated	Issued capital US$'000	Reserves US$'000	Accumulated losses US$'000	Non-controlling interest US$'000	Total equity US$'000
Balance at 1 January 2019	37,649	5,998	(26,197)	524	17,974
Adjustment for change in accounting policy (note 2)	-	-	(14)	-	(14)
Balance at 1 January 2019 - restated	37,649	5,998	(26,211)	524	17,960
Loss after income tax benefit for the half-year	-	-	(7,881)	(617)	(8,498)
Other comprehensive income for the half-year, net of tax	-	786	-	-	786
Total comprehensive income/(loss) for the half-year	-	786	(7,881)	(617)	(7,712)
Transactions with owners in their capacity as owners:					
Distribution to non-controlling interest	-	-	-	(1,126)	(1,126)
Balance at 30 June 2019	37,649	6,784	(34,092)	(1,219)	9,122

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

LawFinance Limited
Consolidated statement of cash flows
For the half-year ended 30 June 2019

	Consolidated	
	1 Jan 2019 to 30 Jun 2019 US$'000	1 Jan 2018 to 30 Jun 2018 US$'000
Cash flows from operating activities		
Cash collections from customers (inclusive of GST)	14,853	5,014
Payments to suppliers and employees	(5,291)	(2,606)
Payments for disbursement reports and medical liens	(15,852)	(5,063)
Drawdowns from working capital facilities - disbursement funding division	4,353	5,661
Drawdowns from working capital facilities - medical lien funding division	12,875	-
Repayment of working capital facilities - disbursement funding division	(3,446)	(4,342)
Repayment of working capital facilities - medical lien funding division	(6,370)	-
Interest and fees related to working capital facilities	(4,301)	(911)
Interest received	2	59
Interest paid	(14)	-
Net cash outflow from operating activities	(3,191)	(2,188)
Cash flows from investing activities		
Payments for property, plant and equipment	(145)	(1)
Payments for other intangibles	(493)	-
Net proceeds from realisation of investments (case settlements)	-	2,235
Payments for litigation funding	(973)	(2,802)
Net cash outflow from investing activities	(1,611)	(568)
Cash flows from financing activities		
Proceeds from issue of shares	-	22
Proceeds from borrowings - corporate	5,832	3,377
Repayment of borrowings - corporate	-	(37)
Interest and fees related to loans and borrowings	(1,940)	(1,103)
Repayment of lease liabilities	(28)	-
Net cash inflow from financing activities	3,864	2,259
Net decrease in cash and cash equivalents	(938)	(497)
Cash and cash equivalents at the beginning of the financial half-year	3,696	1,489
Effects of exchange rate changes on cash and cash equivalents	(1)	(58)
Cash and cash equivalents at the end of the financial half-year	2,757	934

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:

Level 16
56 Pitt Street
Sydney NSW 2000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2019.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the six months ended 31 December 2018 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

AASB 16 'Leases' (modified retrospective approach)
The Group has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Note 2. Significant accounting policies (continued)

Impact of adoption
AASB 16 is adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption on opening accumulated losses as at 1 January 2019 was as follows:

	1 January 2019 $'000
Operating lease commitments as at 1 January 2019 (AASB 117)	93
Accumulated depreciation as at 1 January 2019 (AASB 16)	(80)
Lease Liability - Current (AASB 16)	(18)
Lease Liability - Non-Current (AASB 16)	(9)
Increase in opening accumulated losses as at 1 January 2019	(14)

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, 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.

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.

Revenue recognition
The Group elected to apply AASB 15 'Revenue from Contracts with Customers' on a full retrospective basis as permitted by this standard as if it had been applied since the inception of all its contracts with customers that are presented in the financial statements. The cumulative effect of retrospective application was recognised as an adjustment to the opening accumulated losses or other relevant components of equity as at 1 July 2016.

In the Australian disbursement funding business, the Group enters into contracts with law firms to pay, on the law firms' behalf, legal disbursements to progress their clients' claims. These disbursements include as independent expert reports and medico-legal reports relating to the client's injuries.

In the US medical lien funding business, the Group purchases a lien or obtains a letter of protection over the medical receivables associated with the personal injury cases from health care providers and hospitals.

Note 2. Significant accounting policies (continued)

Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard defines a customer as 'a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration'. Management had undertaken an exercise to assess the Group's contractual arrangements within its disbursement funding business as part of its implementation of AASB 15. The primary factor considered in making this assessment was most notably whether the Group is contractually engaged to provide or deliver a good or service to the law firm.

As a result of this assessment, the Group determined that it does not take primary responsibility and does not have any obligation for the supply or accuracy of the underlying expert reports funded by the Group's Australian disbursement funding business. The Group solely enters into a contract with the law firm to provide financing for legal disbursements in relation to their clients' legal matters. Considering the nature of the disbursement funding arrangements whereby it does not involve the provision of any good or service to the law firm, the Group had concluded that the arrangement does not meet the definition of a contract with a customer under AASB 15.

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 provide financing for that individual medical treatment and takes a lien over the invoice from the medical provider and notifies the law firm of that medical lien. Considering this arrangement does not involve the provision of any good or service to the law firm, the Group had concluded that the arrangement does not meet the definition of a contract with a customer under AASB 15.

As both arrangements give rise to a contractual right to receive cash from the law firm, the Group has concluded that the financing arrangements, both in the US and Australia, meets the definition of a financial instrument. Income arising from changes in the fair value of financial instruments is within the scope of AASB 9 'Financial Instruments'. In applying AASB 9, given the final financial outcome of the provision of the financing arrangement is variable, that is the final amount to be received by the Group is conditional upon the decisions of either the relevant Court or the Insurer to the counterparty for whom the financial arrangement has been sought, the financial arrangement has been treated on a fair value through profit or loss basis.

The Group recognises revenue as follows:
Revenue
Revenue is measured at the fair value of the gross consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of Group's activities. The amount of revenue is not considered to be reliably measurable until all material contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group's revenue recognition policy for the disbursement funding business takes into consideration the inherent finance component embedded in that revenue.

The Group's revenue recognition policy for the medical lien funding business takes into consideration the inherent finance component embedded in that revenue.

The Group's revenue recognition policy for the short-term loan product is to recognise the interest component attaching to the loan as it is earned under the short-term loan contract.

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.

Note 2. Significant accounting policies (continued)

Going concern
As at 30 June 2019 the Group had net current liabilities of US$3,320,000 (31 December 2018: net current assets of US$2,180,000). The directors' have evaluated the Group's principal operations and expected events and conditions and concluded that the Group will be able to continue as a going concern. The Group does not hold significant cash reserves. However, the directors' assessment of the significant judgments made by management, including expected cash collections from the medical lien funding business; expected cash collections from the disbursement funding business; and expected case completions from the litigation funding portfolio, as part of the Group's financial planning processes, has formed part of this assessment.

The directors' have also noted that the Group's facility providers have historically provided repayment extensions to the Group as required, due to the lumpy nature of the Group's litigation funding receipts. Although facilities are due to be repaid within 12 months, the litigation portfolio is also expected to mature in that time frame, which is expected to generate sufficient returns to meet these obligations. Should there be delays in receiving settlement proceeds from the litigation funding business, the directors expect to be able to secure favourable extension terms from the Group's financiers in relation to these maturing facilities.

If, which is not expected, the completions of the litigation funding cases do not resolve favourable, the Group will be required to seek additional capital, either by way of additional facilities or equity. Again given the historical ability for the Group to raise such funds, the directors expect to be able to raise this additional capital if it is required. As such, no adjustment is required to the carrying value of the assets or liabilities of the Group to reflect the situation if the Group were not a going concern.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, 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 judgements and estimates will seldom equal the related actual results. The judgements, 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.

Fair value measurement and carrying value measurement of loan receivables
When the fair values of loan receivables recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using actuarial valuation techniques that take into account discount rates, credit risk and analysis of discounts and write offs. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values and the deferred day 1 margin. Changes in assumptions relating to these factors could affect 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 21.

Allowance for expected credit losses
The allowance for expected credit losses assessment requires a degree of estimation and judgement. 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. These assumptions include recent sales experience and historical collection rates.

Goodwill
The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment. 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 (refer to note 14).

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

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 it 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 successful completion. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions (refer to note 15).

Provision for adverse costs
In the event that litigation funded by the Group is unsuccessful, the Group raises a provision which is based upon the Group's best estimate of the amount of the adverse costs it will have to remit following consultation with external advisors.

Income tax
The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement 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.

Note 4. Operating segments

Identification of reportable operating segments
The Group is organised into three operating segments: (i) JustKapital Finance, comprising the Australian disbursement funding business and short-term funding, (ii) National Health Finance, comprising the US medical lien funding business and (iii) all other operations including litigation funding and head office costs.

Prior to 30 June 2018, the Group was organised into two operating segments: (i) JustKapital Finance, comprising disbursement funding and short-term funding and (ii) Other, litigation funding, insurance and head office.

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

Note 4. Operating segments (continued)

Operating segment information

Consolidated - 1 Jan 2019 to 30 Jun 2019	JustKapital Finance US$'000	National Health Finance US$'000	Other US$'000	Total US$'000
Revenue				
Net income from disbursement funding/medical lien funding	2,149	1,016	-	3,165
Other revenue	19	89	49	157
Total revenue	2,168	1,105	49	3,322
Other income	-	-	581	581
Total revenue	2,168	1,105	630	3,903
Segment result	1,523	(2,154)	(490)	(1,121)
Depreciation and amortisation	(23)	(219)	(7)	(249)
Finance costs	(1,015)	(4,099)	(3,987)	(9,101)
Profit/(loss) before income tax benefit	485	(6,472)	(4,484)	(10,471)
Income tax benefit				1,973
Loss after income tax benefit				(8,498)
Assets				
Segment assets	27,482	123,330	16,151	166,963
Total assets				166,963
Liabilities				
Segment liabilities	21,928	73,014	62,899	157,841
Total liabilities				157,841

Note 4. Operating segments (continued)

Consolidated - 1 Jan 2018 to 30 Jun 2018	JustKapital Finance US$'000	National Health Finance US$'000	Other US$'000	Total US$'000
Revenue				
Net income from disbursement funding	2,019	-	-	2,019
Other revenue	158	-	47	205
Total revenue	2,177	-	47	2,224
Other income	-	-	1,444	1,444
Total revenue	2,177	-	1,491	3,668
Segment result	1,336	-	(260)	1,076
Depreciation and amortisation	(26)	-	(13)	(39)
Business purchase/selling expenses	-	-	(1,088)	(1,088)
Finance costs	(1,029)	-	(1,011)	(2,040)
Profit/(loss) before income tax expense	281	-	(2,372)	(2,091)
Income tax expense				(96)
Loss after income tax expense				(2,187)
Consolidated - 31 Dec 2018				
Assets				
Segment assets	26,477	118,175	15,908	160,560
Total assets				160,560
Liabilities				
Segment liabilities	21,253	61,158	60,175	142,586
Total liabilities				142,586

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

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

Geographical information

	Revenue from external customers		Geographical non-current assets	
	1 Jan 2019 to 30 Jun 2019 US$'000	1 Jan 2018 to 30 Jun 2018 US$'000	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Australia	2,217	2,224	12,273	12,279
United States	1,105	-	39,461	38,408
	3,322	2,224	51,734	50,687

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. Other revenue

	Consolidated 1 Jan 2019 to 30 Jun 2019 US$'000	1 Jan 2018 to 30 Jun 2018 US$'000
Interest received – short-term lending	19	158
Brokerage commission received – insurance	14	47
Rental income - office sub-lease	35	-
Rebates received - medical lien funding	20	-
Rental abatement - NHF	58	-
Sub-rental income - NHF	10	-
Administration fees - NHF	1	-
Other revenue	157	205

Note 6. Other income

	Consolidated 1 Jan 2019 to 30 Jun 2019 US$'000	1 Jan 2018 to 30 Jun 2018 US$'000
Litigation contracts in progress – settlements and judgements	636	2,537
Litigation contracts in progress – expenses	(57)	(1,095)
Interest income	2	2
Other income	581	1,444

Note 7. Expenses

	Consolidated 1 Jan 2019 to 30 Jun 2019 US$'000	1 Jan 2018 to 30 Jun 2018 US$'000
Loss before income tax includes the following specific expenses:		
Employee benefits expense		
Defined contribution superannuation expense	36	22
Share-based payments expense	-	(17)
Employee benefits expense excluding superannuation	2,691	906
	2,727	911
Depreciation and amortisation expense		
Depreciation - property, plant and equipment	66	16
Depreciation - right-of-use assets	38	-
Amortisation - other intangibles	145	23
	249	39
Impairment of assets		
Other intangibles	67	-
Receivables	-	801
	67	801
Administration and other expenses		
ASIC, ASX and share registry fees	60	22
Insurance	54	25
Legal and professional fees	698	461
Rent and office costs	182	177
Travel and accommodation	94	25
Other	312	102
	1,400	812
Business purchase/selling expenses		
Legal and professional fees	-	1,088
Finance costs		
Interest expense and line fees	9,088	2,040
Interest - right-of-use assets	13	-
	9,101	2,040
Lease expenses		
Short-term lease payments	55	-
Low-value assets lease payments	19	-
	74	-

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Cash at bank and on hand	2,757	3,696

Short term cash deposits are used as bank guarantee security. Refer to note 22.

Note 9. Current assets - loan and other receivables

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Loan receivables - disbursement funding/medical lien funding (gross)	68,062	56,707
Fair value movement	(32,832)	(27,264)
Unrecognised day 1 margin	(2,319)	(1,983)
	32,911	27,460
Other trade receivables	68	180
Short term loans	365	488
	433	668
Other receivables	1,474	1,755
	34,818	29,883

Loan receivables are dependent upon a decision in the related matter by the Court or the insurance company if a case is settled. The loan receivables disclosed above include $154,000 which are past due but not impaired. The Company believes the amounts are fully recoverable.

Other receivables include amounts due to the Group from a completion of a case and its joint venture partner for its share of investments made in co-funded cases.

Note 10. Non-current assets - loan and other receivables

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Loan receivables - disbursement funding/medical lien funding (gross)	156,252	148,541
Fair value movement	(81,475)	(76,612)
Unrecognised day 1 margin	(5,982)	(2,491)
	68,795	69,438
Other receivables	5	-
	68,800	69,438

Loan receivables are dependent upon a decision in the related matter by the Court or the insurance company if a case is settled. The loan receivables disclosed above include $181,000 which are past due but not impaired. The Company believes the amounts are fully recoverable.

Note 11. Non-current assets - investments held in joint operations

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Investment in joint operation	1,160	1,166

The Group has a material joint operation with Longford Capital Management LP ('Longford Capital') where the Group co-invests with Longford Capital in litigation funding. The joint operation is funding one case in the United States on a 50:50 basis. The Group is entitled to its proportionate share of the Litigation contracts in progress income received and bears a proportionate share of the joint operation's investment in cases.

Note 12. Non-current assets - property, plant and equipment

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Leasehold improvements - at cost	57	57
Less: Accumulated depreciation	(57)	(57)
	-	-
Plant and equipment - at cost	422	345
Less: Accumulated depreciation	(210)	(147)
	212	198
	212	198

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

Consolidated	Plant and equipment US$'000
Balance at 1 January 2019	198
Additions	79
Exchange differences	1
Depreciation expense	(66)
Balance at 30 June 2019	212

Note 13. Non-current assets - right-of-use assets

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Land and buildings - right-of-use	1,273	-
Less: Accumulated depreciation	(117)	-
	1,156	-

Additions to the right-of-use assets during the half-year were $986,000.

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

Note 14. Non-current assets - goodwill

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Goodwill - Australian disbursement funding business	4,172	4,194
Goodwill - US medical lien funding business	36,345	36,345
	40,517	40,539

Movements in Goodwill during the current financial half-year are set out below:

Consolidated	Australian disbursement funding business US$'000	US medical lien funding business US$'000
Balance at 1 January 2019	4,194	36,345
Foreign currency translation	(22)	-
Balance at 30 June 2019	4,172	36,345

Goodwill - Australian disbursement funding business

Goodwill arose from the acquisition of the Macquarie Medico Legal business in 2016 and is allocated to the Australian operating division ('AOD'). The Group performed its annual impairment test at the reporting date. The Group considers the relationship between its market value, among other factors when assessing impairment. The recoverable amount of the Australian disbursement funding business has been determined based upon a value-in-use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections was 14% (31 December 2018: 15%) and cash flows beyond the five-year period are extrapolated using a 1% (31 December 2018: 1%) growth rate. It was concluded that the recoverable amount did not exceed its value-in-use.

Key assumptions used in value-in-use calculations and sensitivity to changes in assumptions
The calculation of value-in-use for the Australian disbursement funding business is most sensitive to the following assumptions:
- Discount rates; and
- Growth rate estimates.

Note 14. Non-current assets - goodwill (continued)

Discount rates
Discount rates represent the current market assessment of the risks specific to the business unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ('WACC'). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. A rise in the pre-tax discount rate to 20% (31 December 2018: 20%) would result in goodwill being impaired.

Growth rate estimates
Rates are based on management's estimates. Management recognises that the possibility of new entrants can have a significant impact on growth rate assumptions, however, given this is a relatively new industry, the effect of new entrants is not expected to have an adverse impact on the forecasts. A reduction to negative 11% (31 December 2018: negative 4%) in the long-term growth rate would result in goodwill being impaired.

Goodwill – US medical lien funding business

Goodwill arose from the acquisition of the National Health Finance business in September 2018 with an effective date of control of 1 October 2018 and is allocated to the US operating division ('USOD'). The Group performed its annual impairment test at the reporting date. The Group considers the relationship between its market value, among other factors when assessing impairment. The recoverable amount of the US medical lien funding business has been determined based upon a value-in-use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections was 14% (31 December 2018: 15%) and cash flows beyond the five-year period are extrapolated using a 1% (31 December 2018: 1%) growth rate. It was concluded that the recoverable amount did not exceed its value-in-use.

Key assumptions used in value-in-use calculations and sensitivity to changes in assumptions
The calculation of value-in-use for the National Health Finance business is most sensitive to the following assumptions:
- Discount rates; and
- Growth rate estimates.

Discount rates
Discount rates represent the current market assessment of the risks specific to the business unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ('WACC'). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of the debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. A rise in the pre-tax discount rate to 15% (31 December 2018: 24%) would result in goodwill being impaired.

Growth rate estimates
Rates are based on management's estimates. Management recognises that the possibility of new entrants can have a significant impact on growth rate assumptions, however, given this is a relatively new industry, the effect of new entrants is not expected to have an adverse impact on the forecasts.

Note 15. Non-current assets - other intangibles

	Consolidated 30 Jun 2019 US$'000	Consolidated 31 Dec 2018 US$'000
Website - at cost	17	17
Less: Accumulated amortisation	(12)	(10)
	5	7
Customer relationships – US medical lien funding business	1,913	1,913
Less: Accumulated amortisation	(143)	-
	1,770	1,913
Litigation contracts in progress - capitalised external costs	6,229	6,314
Litigation contracts in progress - capitalised internal costs	685	550
	6,914	6,864
	8,689	8,784

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-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 2019	7	1,913	6,864	8,784
Additions*	-	-	117	117
Impairment of assets	-	-	(67)	(67)
Amortisation expense	(2)	(143)	-	(145)
Balance at 30 June 2019	5	1,770	6,914	8,689

* These additions are net of any co-funder contributions.

The recoverable amount of each Litigation contract in progress is determined based upon a value-in-use calculation using cash flow projections based upon financial budgets approved by management.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions
The following describes each key assumption on which management has based its cash flow projections when determining the value-in-use of Litigation contracts in progress:
(i) The estimated cost to complete the Litigation contracts in progress is budgeted, based upon estimates provided by the external legal advisor in charge of the litigation;
(ii) The value of the Litigation contracts in progress, once completed, is estimated based upon the expected settlement or judgement amount of the litigation and the fees due to the Group under the litigation funding contract; and
(iii) The discount rate applied to the cash flow projections is based on the Group's WACC; and other factors relevant to the particular Litigation contract in progress. The discount rate applied was 15% (31 December 2018: 15%).

As a result of the impairment testing performed an amount of $67,000 was determined to be impaired and was written off during the period. No significant change in the key assumptions would result in any additional impairment charge.

Note 16. Current liabilities - trade and other payables

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Trade and other payables	5,667	7,556
Accruals	4,354	3,992
Goods and services tax payable	86	101
	10,107	11,649

Trade and other payables are paid within agreed credit terms.

Note 17. Current liabilities - borrowings

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
NHF Founder Promissory Notes (i)	9,000	-
Vendor loan - Australian disbursement funding business (ii)	820	824
Convertible bonds payable (iii)	3,510	3,529
Lucerne Group combined loan (iv)	8,502	8,548
Lucerne Group facility - US medical lien funding business (v)	5,524	5,238
Other NHF subordinated debt (vi)	1,000	1,000
Pitt Capital Partners Limited (vii)	867	-
Washington H. Soul Pattinson & Company Limited (viii)	1,119	-
Insurance financing	31	49
Credit cards	171	414
	30,544	19,602

(i) NHF Founder Promissory Notes (David Wattel and Mark Siegel)
The NHF Founder Promissory Notes were $9,000,000 ($4,500,000 per founder) as at 30 June 2019 (31 December 2018: $9,000,000 ($4,500,000 per founder) and are repayable on 16 January 2020. The loan is interest free and is unsecured.

(ii) Vendor loan - Australian disbursement funding business
The loan due to the vendor of the Australian disbursement funding business is repayable on 15 December 2019. Interest is payable at 11% (31 December 2018: 7.5%) per annum. The Group signed an agreement on 2 July 2019, with an agreed upon monthly repayment schedule. The loan is unsecured. The Vendor may convert the outstanding loan amount to ordinary shares of the Company at a conversion price of A$0.14 per share.

(iii) 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). During the financial period ended 31 December 2018, the bonds maturity date was extended to 29 November 2019. Interest payments are cumulative and payable at 11.5% per annum, quarterly in arrears. The bonds are convertible into ordinary shares of the Company at the option of the holder prior to their maturity. The holder can elect to convert prior to maturity date by providing notice only after the Company's next annual general meeting. The conversion price, if such an election is made, is A$0.30 per ordinary share, or 80% of the issue price of any future equity issued should the issue price be lower than A$0.30 per ordinary share. The Company undertook a capital raising in November 2018 at A$0.08 per share. As a result of that capital raising the conversion price of the convertible bonds is now A$0.064 per ordinary share.

The Company has a right to redeem the bonds earlier than their maturity date at a 10% premium to face value. With the agreement of the Company, the bond holders may partially or fully apply the redemption amount to subscribe for ordinary shares at a price that represents a 10% discount to a 5-day volume weighted average price ('VWAP') determined by the holder within the previous 90 days.

Note 17. Current liabilities - borrowings (continued)

The convertible bonds are 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 are considered to include a derivative liability. As such the convertible bonds are 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.

The facility is subject to a number of covenants. A breach of a covenant may require the Group to repay the bond earlier. No covenants have been breached as at 30 June 2019.

(iv) 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. The loan is repayable on 31 December 2019. Ongoing interest payable is 13.5% per annum (31 December 2018: 13.5% per annum (including establishment fees)). The loan is unsecured.

The facility is subject to a number of covenants. A breach of a covenant may require the Group to repay the loan earlier. No covenants have been breached as at 30 June 2019.

(v) Lucerne Group facility - US medical lien funding business
Lucerne Finance Pty Limited and the Principis Master Fund have jointly provided facilities totalling $5,524,000 to the medical lien funding business in the US as at 30 June 2019 (31 December 2018: $5,238,000). The facilities are repayable on 28 September 2019. Interest was payable at 15% per annum, but has stepped up to 19% per annum from 1 April 2019. The loan is unsecured.

(vi) Other NHF subordinated debt
A third party has provided a $1,000,000 facility to NHF which remains payable as at 30 June 2019 (31 December 2018: $1,000,000). The facilities are repayable on demand. Interest is payable at 12% (31 December 2018: 12%) per annum. The loan is unsecured.

(vii) Pitt Capital Partners Limited
Pitt Capital Partners Limited have provided a $867,000 (A$1,235,000) loan to the Group. The loan is repayable on 30 June 2020. Interest payable under this loan is 15% per annum. The loan is unsecured.

(viii) Washington H. Soul Pattinson & Company Limited
Washington H Soul Pattinson & Company Limited have provided a $1,119,000 (A$1,594,000) deferred financing arrangement, giving the Group the ability to defer interest payments payable under the Syndicated Acquisition Facility. The deferred financing arrangement is repayable on 30 June 2020. Interest payable under this arrangement is 15% per annum, and is unsecured.

Note 18. Non-current liabilities - borrowings

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Assetsecure Pty Limited loan (i)	20,821	20,028
Atalaya Capital Management (ii)	46,407	39,902
NHF Founder Promissory Notes	-	9,000
Syndicated acquisition facility (iii)	29,484	29,644
Vendor loan - NHF Founders (iv)	13,257	12,546
Lucerne Finance Pty Ltd loan (v)	2,808	-
Other NHF subordinated debt (vi)	3,000	-
	115,777	111,120

Note 18. Non-current liabilities - borrowings (continued)

(i) Assetsecure Pty Limited ('Assetsecure')
On 2 August 2019 the Group executed a Variation letter increasing the loan facility to $28,080,000 (A$40,000,000) (31 December 2018: $24,703,000) (A$35,000,000), which is available to fund the Australian disbursement funding business operated by JustKapital Financing Pty Limited. This loan facility now expires on 30 September 2022. This loan is classified as non-current in the current financial period. However, it is repayable on demand if loan covenants are breached and not rectified. Interest and management fees payable total 7.95% per annum on the drawn down amounts (31 December 2018: 7.95% per annum) and the facility line fee is 1% per annum (31 December 2018: 1% per annum).

The loan is secured by a fixed and floating charge over the assets of JustKapital Financing Pty Limited. The parent entity and other entities within the Group have guaranteed the facility.

The facility is subject to a number of covenants. A breach of a covenants may require the Group to repay the loan earlier. No covenants have been breached as at 30 June 2019.

(ii) Atalaya Capital Management ('Atalaya')
The loan facility of $80,000,000 (31 December 2018: $80,000,000) is available to fund the US medical lien funding business. The facility is repayable on 25 April 2022. However, it is repayable on demand if loan covenants are breached and not rectified. There have been a number of covenant breaches of this loan during the period. However, Atalaya and NHF are currently documenting a forbearance agreement concerning these covenant breaches and this documentation is expected to be completed by mid-September 2019. There has been no demand made by Atalaya to repay this facility. The facility is secured by a first-ranking charge over the assets of NHF SPV I, LLC (being the company which owns the accounts receivables in the US). The interest and fees payable under the drawn down facility total 13.40% per annum (31 December 2018: 13.40% per annum) and the undrawn line fees are 1% (31 December 2018: 1% per annum).

(iii) Syndicated acquisition facility
The Syndicated acquisition facility of $29,484,000 (A$42,000,000) (31 December 2018: $29,644,000 (A$42,000,000)) was provided by leading Australian institutions and family offices, including Washington H. Soul Pattinson & Company Limited. The facility is repayable on 28 September 2022 but may be repaid at any time after 28 September 2021. Interest payable under this facility is 13% per annum (31 December 2018: 13% per annum). The loan is secured over all of the assets of the Group, with second ranking security provided behind the assets secured to Assetsecure and Atalaya (noted above).

(iv) Vendor loan - NHF Founders
A vendor loan facility totalling $13,257,000 (A$18,885,000) (31 December 2018: $12,546,000 (A$17,200,000)) was provided by the NHF Founders David Wattel and Mark Siegel. This facility is repayable on 28 September 2022 but may be repaid any time after 28 September 2021. Interest payable under this facility is 13% per annum (31 December 2018: 13% per annum). The loan is unsecured.

(v) Lucerne Finance Pty Ltd loan
This facility of $2,808,000 (A$4,000,000) has been provided to fund working capital of the Australian business. The loan is repayable on 31 December 2020. Interest payable under this facility is 15% per annum. The loan is unsecured.

(vi) Other NHF subordinated debt
Two third parties have provided a $3,000,000 facility ($1,500,000 each) to fund working capital of the US business. The facility is repayable on 31 December 2020. Interest payable under this facility is 13.5%. The loan is guaranteed by NHF and LawFinance.

Note 18. Non-current liabilities - borrowings (continued)

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Total facilities		
Assetsecure Pty Limited loan*	24,570	24,703
Atalaya Capital Management**	80,000	80,000
NHF Founder Promissory Notes***	9,000	9,000
Syndicated acquisition facility	29,484	29,644
Vendor loan - NHF Founders	13,257	12,546
Lucerne Finance Pty Limited	2,808	-
Other NHF subordinated debt	3,000	-
	162,119	155,893
Used at the reporting date		
Assetsecure Pty Limited loan*	20,821	20,028
Atalaya Capital Management**	46,407	39,902
NHF Founder Promissory Notes***	9,000	9,000
Syndicated acquisition facility	29,484	29,644
Vendor loan - NHF Founders	13,257	12,546
Lucerne Finance Pty Limited	2,808	-
Other NHF subordinated debt	3,000	-
	124,777	111,120
Unused at the reporting date		
Assetsecure Pty Limited loan*	3,749	4,675
Atalaya Capital Management**	33,593	40,098
NHF Founder Promissory Notes***	-	-
Syndicated acquisition facility	-	-
Vendor loan - NHF Founders	-	-
Lucerne Finance Pty Limited	-	-
Other NHF subordinated debt	-	-
	37,342	44,773

* The facility can be drawn-down based upon various calculations relating to the underlying disbursement funding receivables. As at 30 June 2019, $14,451 could be drawn down as a result of these calculations (31 December 2018: $20,863).

** The facility can be drawn-down based upon various calculations relating to the underlying medical lien funding receivables. As at 30 June 2019, $41,082 could be drawn down as a result of these calculations (31 December 2018: $238,530).

*** These Promissory Notes have been reclassified to current liabilities during the reporting period.

Note 19. Equity - issued capital

	Consolidated			
	30 Jun 2019 Shares	31 Dec 2018 Shares	30 Jun 2019 US$'000	31 Dec 2018 US$'000
Ordinary shares - fully paid	483,635,467	483,635,467	37,649	37,649

Note 20. Equity - reserves

	Consolidated 30 Jun 2019 US$'000	Consolidated 31 Dec 2018 US$'000
Foreign currency reserve	788	2
Share-based payments reserve	5,996	5,996
	6,784	5,998

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.

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

Consolidated	Foreign currency US$'000	Share-based payments US$'000	Total US$'000
Balance at 1 January 2019	2	5,996	5,998
Foreign currency translation	786	-	786
Balance at 30 June 2019	788	5,996	6,784

Note 21. 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 significant observable for the asset or liability, either directly or indirectly
Level 3: Significant unobservable inputs for the asset or liability

Consolidated - 30 Jun 2019	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets measured at fair value:				
Loan receivables - disbursement funding/medical lien funding	-	-	110,007	110,007
Total assets	-	-	110,007	110,007

Consolidated - 31 Dec 2018	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets measured at fair value:				
Loan receivables - disbursement funding/medical lien funding	-	-	101,372	101,372
Total assets	-	-	101,372	101,372

The above Loan receivables are shown excluding the adjustment for the unrecognised day 1 margin. There were no transfers between levels during the financial period.

Note 21. Fair value measurement (continued)

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, performed by an actuarial firm as at 30 June 2019 and 31 December 2018 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 and 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.

Loan receivables fair value measurement – valuation process
Valuations are performed on a half-yearly basis by an approved external actuarial firm. For the purpose of the valuation, Management provides the external actuarial firm with the inputs and data required to be applied in the valuations. Management performs a reconciliation of the fair value based on the valuation results and as part of the reconciliation process, discussions are conducted with the external actuarial firm if there are any unusual movements noted.

Reconciliation of fair value measurement of the loan receivables and deferred day 1 margin during the current half-year is set out below:

Consolidated	Fair value US$'000	Deferred day 1 margin US$'000	Total US$'000
Balance at 1 January 2019	101,372	(4,474)	96,898
Cash disbursements in relation to new loans	15,852	-	15,852
New day 1 margin	-	(7,829)	(7,829)
Cash collections - disbursement funding	(14,724)	-	(14,724)
Gains or losses recognised in profit or loss	7,674	-	7,674
Amortisation of day 1 margin	-	3,985	3,985
Exchange rate movement	(167)	17	(150)
Balance at 30 June 2019	110,007	(8,301)	101,706

This reconciliation excludes other receivables and short-term loans.

The loan receivables - disbursement funding/medical lien funding (gross) balance was US$224,314,000 as at 30 June 2019 (31 December 2018: US$205,248,000).

Note 22. Contingent liabilities

Bank guarantees
The Group has given bank guarantees as at 30 June 2019 of $104,000 (31 December 2018: $112,000) to various landlords. The guarantees are secured by an offset arrangement with the short-term cash deposits.

Note 22. Contingent liabilities (continued)

Litigation funding agreements
In certain jurisdictions litigation funding agreements contain an undertaking from the Group 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% (31 December 2018: 70%) of the amount paid by the plaintiff to pursue the litigation (although in some cases there may be more than one defendant). Accordingly, an estimate of the total potential adverse costs exposure of the Group which has accumulated from time to time may be made by assuming all cases are lost, that adverse costs equal 70% (31 December 2018: 70%) of the amount spent by the plaintiff and that there is only one defendant per case.

At 30 June 2019 the total amount spent by the Group where undertakings to pay adverse costs have been provided was $7,677,000 (31 December 2018: $5,750,000). The potential adverse costs orders using the above methodology would amount to $5,374,000 (31 December 2018: $3,883,000). The Group does not currently expect that any of the matters will be unsuccessful. The Group has obtained adverse costs order insurance for these matters which should respond if any matter is unsuccessful and an adverse costs order is payable.

Earn out - Litigation funding portfolio
The seller of the Litigation funding portfolio, which was acquired by the Group on 11 July 2016, is entitled to receive 50% of proceeds over A$4,000,000 from the "free carry" component of the litigation funding agreements. There is presently a dispute with the seller in relation to the calculation of the "free carry" entitlement generated by four case settlements in the portfolio (there is one on-going case from this portfolio). The seller of this portfolio claims that amounts are due to be paid by the Company under the "free carry" entitlement. The Company's position is that under the terms of the relevant agreements there is no amount payable. Litigation was commenced in the current reporting period by the seller, and the Company intends to vigorously defend those proceedings.

Litigation commenced by former Executive Chairman
An associated entity of the former Executive Chairman of the Group has commenced proceedings against the Company in relation to various aspects of his exit from the Group. The Company believes that the claims are un-meritorious and intends to vigorously defend those proceedings. Similar proceedings commenced by the former Executive Chairman were dismissed by the Federal Court in April 2019.

Litigation against NHF
NHF remains in litigation on the two separate proceedings 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.

Note 23. Earnings per share

	Consolidated	
	1 Jan 2019 to 30 Jun 2019 US$'000	1 Jan 2018 to 30 Jun 2018 US$'000
Loss after income tax	(8,498)	(2,187)
Non-controlling interest	617	-
Loss after income tax attributable to the owners of LawFinance Limited	(7,881)	(2,187)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	483,635,467	147,933,598
Weighted average number of ordinary shares used in calculating diluted earnings per share	483,635,467	147,933,598

Note 23. Earnings per share (continued)

	Cents	Cents
Basic loss per share	(1.63)	(1.48)
Diluted loss per share	(1.63)	(1.48)

The Company excluded, nil options on issue (30 June 2018: 1,500,000), 50,000 convertible bonds (30 June 2018: 50,000) and 452,743,636 warrants (30 June 2018: nil), from the diluted earnings calculations as they are anti-dilutive for the financial half-year.

Note 24. Events after the reporting period

No matter or circumstance has arisen since 30 June 2019 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
30 June 2019

In the directors' opinion:

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

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial half-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.

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

On behalf of the directors

Tim Storey
Chairman

30 August 2019
Sydney

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

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

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

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of LawFinance Limited, which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the half-year ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for LawFinance Limited (the consolidated entity). The consolidated entity comprises both LawFinance Limited (the Company) and the entities it controlled during the half year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of JustKapital Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of LawFinance Limited on 30 August 2019.

Material Uncertainty regarding Going Concern and the recoverability of the Deferred Tax Asset

As described in note 2 to the financial report, the financial statements have been prepared on a going concern basis. At 30 June 2019 the consolidated entity had a working capital deficiency of $3,320,000, cash and cash equivalents of $2,757,000 and had incurred a loss before tax for the half year amounting to $10,471,000. The ability of the consolidated entity to continue as a going concern is subject to the consolidated entity realising cashflows from the expected legal case completions, collecting its outstanding disbursement receivables books in accordance with its budgeted cashflows, and/or raising additional capital (debt or equity). In the event that the Board does not successfully collect its outstanding disbursement books, and/or realising cashflows from the expected legal case completions and/or raise further capital, the consolidated entity may not be able to meet its liabilities as and when they fall due.

The recoverability of the deferred tax assets of the consolidated entity, carried at $8,731,000, is dependant upon the entity earning sufficient tax profits in the future years to utilise the deferred tax assets. In the event that the consolidated entity does not generate enough taxable profits, the tax assets will need to be expensed.

Our conclusion is not modified in respect of these matters.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standards AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)

Stantons International Audit & Consulting Pty Ltd

Martin Michalik
Director

West Perth, Western Australia
30 August 2019