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QTM and PGC: ASX ANNOUNCEMENT

17 December 2021

Merger between Quantum Health Group Limited (ASX:QTM) and Paragon Care Limited (ASX:PGC)

QUANTUM SCHEME BOOKLET REGISTERED WITH ASIC

Quantum Health Group Limited (ASX:QTM) ("**Quantum**") and Paragon Care Limited (ASX:PGC) ("**Paragon**") refer to their joint announcement earlier today and are now pleased to announce that the Australian Securities and Investments Commission ("**ASIC**") has registered the Scheme Booklet in relation to the proposed acquisition by Paragon of all of the Quantum shares on issue by way of a scheme of arrangement between Quantum and its shareholders ("**Scheme**").

A copy of the Scheme Booklet, which includes the notice of Scheme Meeting and the Independent Expert's Report, is attached to this announcement. It will be despatched to Quantum Shareholders on or about Tuesday, 21 December 2021.

Authorised for lodgement by the Board of Directors of Quantum Health Group Limited and Paragon Care Limited.

For more information:

John Walstab, Managing Director, Quantum Health Group Limited
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Shane Tanner, Chair, Paragon Care Limited
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About Quantum Health Group Limited

Quantum Health Group Limited (ASX:QTM) is a leading independent Healthcare company operating throughout Asia. Quantum Healthcare specialise in the distribution of state-of-the-art medical imaging, patient treatment, and equipment services in Radiology, Oncology and Women's Healthcare. Quantum Healthcare's head office is in Sydney, Australia with direct subsidiary businesses operating in Thailand, South Korea, Philippines, NZ, Vietnam and China. Quantum is the authorised distribution partner for leading global healthcare manufacturers including Carestream, Philips Healthcare, Samsung, IBA and Accuray. Quantum Healthcare has successfully created a Healthcare Technology Platform across Asia and it provides first class customer service and clinical support for a large installed base of medical equipment in hospitals, universities, and private clinics.

About Paragon Care Limited - www.paragoncare.com.au

Paragon Care Limited (ASX:PGC) is an Australian based listed company in the healthcare sector. It is a leading provider of medical equipment, devices, and consumables for the Australian and New Zealand healthcare markets. These are high growth markets driven by the ageing of the population, continuously rising consumer expectations and increasing government spending. By combining a series of strategic acquisitions of class leading companies, Paragon as positioned itself to provide advanced technology solutions including equipment, consumables, and services for acute and ancillary care environments.

Forward-looking statements

This announcement contains or may contain forward-looking statements that are based on Quantum's and Paragon's beliefs, assumptions and expectations and on information currently available to Quantum and Paragon (as applicable).

All statements that address operating performance, events or developments that Quantum and / or Paragon or their respective directors expect or anticipate will occur in the future are forward-looking statements, including, without limitation, statements as to the expectations of Quantum and/or Paragon of the benefits of the Scheme.

Quantum and Paragon believes that these forward-looking statements are reasonable as and when made. You should not place undue reliance on forward-looking statements because they speak only as of the date when made. Quantum and Paragon do not assume any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. No assurance or guarantee is, or should be taken to be, given in relation to, and no reliance should be placed on, the future business performance or results of Paragon or Quantum or the likelihood that the current assumptions, estimates or outcomes will be achieved. Actual results, developments or events could differ materially from those disclosed in the forward-looking statements.

Attachment – Scheme Booklet

[*Commences on following page*]

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Quantum Health Group Limited
ACN 003 677 245

This Scheme Booklet is important and requires your immediate attention. You should read it in its entirety. If you are in any doubt as to how to deal with this document, please consult your financial, legal or other professional adviser.

Scheme Booklet

for the scheme of arrangement between Quantum Health Group Limited and its shareholders in relation to the proposed acquisition by Paragon Care Limited.

The Quantum Directors unanimously recommend that you

VOTE IN FAVOUR

of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders.

The Independent Expert has concluded that the Scheme is in the best interests of Quantum Shareholders in the absence of a superior proposal.

The Quantum Directors intend to vote all Quantum Shares they hold or control in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders.

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Important notices and disclaimers

Important document

This Scheme Booklet is an important document and should be read in its entirety. If you are in any doubt as to the course you should follow, you should seek independent professional advice.

Date

This Scheme Booklet is dated 17 December 2021.

Explanatory statement

This Scheme Booklet is an explanatory statement which has been prepared pursuant to section 412(1) of the Corporations Act to explain the effect of the Scheme and provide information which is material to the making of a decision by Quantum Shareholders about whether or not to vote in favour of the Scheme.

Role of ASIC, the ASX and the Court

A copy of this Scheme Booklet has been examined by ASIC pursuant to section 411(2)(b) of the Corporations Act and registered by ASIC under section 412(6) of the Corporations Act. ASIC has been or will be requested to provide a statement in accordance with section 411(17)(b) of the Corporations Act that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been lodged with the ASX. Neither the ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Important notice associated with Court order under subsection 411(1) of the Corporations Act

The fact that under subsection 411(1) of the Corporations Act the Court has ordered that the Scheme Meeting be convened and has approved the Scheme Booklet required to accompany the notice of the Scheme Meeting does not mean that the Court:

(a) has formed any view as to the merits of the Scheme or as to how Quantum Shareholders should vote on the Scheme (on this matter Quantum Shareholders must reach their own decision);

(b) has prepared, or is responsible for the contents of, this Scheme Booklet; or

(c) has approved or will approve the terms of the Scheme.

Notice of Scheme Meeting

The Notice of Scheme Meeting is included in this Scheme Booklet as Annexure 4.

Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Quantum Shareholder may appear at the Second Court Hearing, expected to be held at the Law Courts Building, 184 Phillip Street, Sydney NSW 2000 at 3:00pm on 1 February 2022.

Any Quantum Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Quantum a notice of appearance in the prescribed form together with any affidavit that the Quantum Shareholder proposes to rely on.

Responsibility for information in this Scheme Booklet

The Quantum Scheme Booklet Information has been prepared and given by, and is the sole responsibility of, Quantum. Quantum's advisers do not assume any responsibility for the accuracy or completeness of the Quantum Scheme Booklet Information and, to the maximum extent permitted by law, Paragon will not be responsible for any Quantum Scheme Booklet Information and disclaims liability for Quantum Scheme Booklet Information appearing in this Scheme Booklet.

The Paragon Scheme Booklet Information has been prepared and given by, and is the sole responsibility of, Paragon. Paragon's advisers do not assume any responsibility for the accuracy or completeness of the Paragon Scheme Booklet Information and, to the maximum extent permitted by law, Quantum will not be responsible for any Paragon Scheme Booklet Information and disclaims liability for Paragon Scheme Booklet Information appearing in this Scheme Booklet.

Leadenhall Corporate Advisory Pty Ltd has prepared the Independent Expert's Report and is responsible for that report. None of Quantum, Paragon, their respective Related Bodies Corporate and their respective directors, officers, employees and advisers assumes any responsibility for the accuracy or completeness of the information in the Independent Expert's Report except, in the case of Quantum and Paragon, in relation to information given by them for the purposes of the preparation of the Independent Expert's Report, respectively, to the Independent Expert.

Investment decisions

This Scheme Booklet does not take into account your individual investment objectives, financial situation, taxation position or particular needs. The information in this Scheme Booklet should not be relied on as the sole basis for any decision in relation to your Quantum Shares. You should seek independent professional advice before making any investment decision in relation to your Quantum Shares or how to vote on the Scheme.

Forward looking statements

This Scheme Booklet contains forward looking statements which are not based solely on historical facts but are based on current expectations of Quantum, and (in relation to the Paragon Scheme Booklet Information) Paragon, about future events and results. These forward looking statements are subject to inherent risks and uncertainties. Such risks and uncertainties include factors and risks specific to the industries in which Quantum and Paragon operate as well as general economic conditions, prevailing exchange rates and interest rates, conditions in financial markets, government policies and regulations, competitive pressures and changes in technology. Actual events or results may differ materially from the expectations expressed or implied in such forward looking statements.

None of Quantum, Paragon, their respective Related Bodies Corporate or their respective directors, officers, employees and advisers makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. Accordingly, you are cautioned about placing undue reliance on forward looking statements contained in this Scheme Booklet.

The forward looking statements in this Scheme Booklet reflect views held only at the date of this Scheme Booklet. Subject to any continuing obligations under law or the ASX Listing Rules, Paragon and Quantum do not give any undertaking to update or revise any forward looking statements after the date of the Scheme Booklet to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any statement has been based.

Note to foreign shareholders

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia, New Zealand, Thailand or South Korea may be restricted by law in such other jurisdictions. Persons who come into possession of this Scheme Booklet should observe any such restrictions Persons who come into possession of this Scheme Booklet should observe any such restrictions. Any failure to comply with such restrictions could constitute a violation of applicable laws.

This Scheme Booklet and the Scheme do not constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

This Scheme Booklet may be distributed to existing shareholders of Quantum in New Zealand. This Scheme Booklet is not a New Zealand disclosure document and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the *Financial Markets Conduct Act 2013* or any other New Zealand law. The offer of Paragon Shares under the Scheme is being made to existing shareholders of Quantum in reliance upon the *Financial Markets Conduct (Incidental Offers) Exemption Notice 2021* and, accordingly, this Scheme Booklet may not contain all the information that a disclosure document is required to contain under New Zealand law.

A Scheme Shareholder whose address shown in the Register is a place outside of Australia and its external territories, New Zealand, Thailand or South Korea as at the Scheme Record Date will be an Ineligible Foreign Shareholder unless Quantum and Paragon agree otherwise that it is lawful and not unduly onerous or impracticable to issue Paragon Shares to that Scheme Shareholder under the Scheme.

Quantum Shareholders who are not Australian resident taxpayers or who are liable for tax outside of Australia should seek specific tax advice in relation to the Australian and overseas tax consequences of the transactions contemplated by this Scheme Booklet. See Section 9.5 for further information on foreign selling restrictions.

Privacy

Quantum may collect personal information about you in connection with the Scheme. The personal information may include the names, contact details and details of shareholdings of Quantum Shareholders, together with the names and contact details of individuals appointed by Quantum Shareholders to act as proxies, attorneys or corporate representatives to vote at a Scheme Meeting.

Such information will be collected for the purpose of the Scheme Meeting and implementing the Scheme. The information may be disclosed to Quantum, Quantum's advisors, and service providers, and to Paragon and Paragon's advisers and service providers, to the extent necessary in connection with the Scheme Meeting and implementing the Scheme.

You may have certain rights to access personal information which is collected about you. You should contact Quantum's share registry, Boardroom, in the first instance should you wish to exercise these rights. You can contact Boardroom by telephone on 1300 737 760 (Australia) or +61 2 9290 9600 (outside Australia).

Quantum Shareholders who appoint a named person as their proxy, attorney or corporate representative to vote at the Scheme Meeting should inform that individual of the matters outlined above.

Definitions

Capitalised terms used in this Scheme Booklet are defined in Section 10 of this Scheme Booklet.

References to time and dates

All references to time in this Scheme Booklet are to the time in Sydney, Australia unless expressly indicated otherwise. All times and dates relating to the Implementation of the Scheme referred to in this Scheme Booklet may change and, among other things, are subject to all necessary approvals from Governmental Agencies.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet, including those in respect of the Scheme Consideration, are subject to the effect of rounding. Accordingly, their actual calculation may differ from the calculations set out in this Scheme Booklet.

Charts and diagrams

Any charts, diagrams, maps, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale.

Currency

All references in this Scheme Booklet to "$", "A$" and "cents" are references to Australian currency, unless otherwise specified.

No internet site is part of this Scheme Booklet

Quantum maintains an internet site at qhealthcare.com.au. Paragon maintains an internet site at paragoncare.com.au. Any references in this Scheme Booklet to an internet site is a textual reference for information only and no information in any internet site forms part of this Scheme Booklet.

A copy of this Scheme Booklet can be found on Quantum's website at qhealthcare.com.au.

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Key dates and events

Event	Time and date
Date of this Scheme Booklet	Tuesday, 21 December 2021
Deadline for receipt of Proxy Forms for Scheme Meeting Latest time and date for receipt of Proxy Forms (including proxies and votes lodged online) for the Scheme Meeting.	3:00pm on Tuesday, 25 January 2022
Record date for determining entitlement to vote at the Scheme Meeting Time and date for determining eligibility to vote at the Scheme Meeting.	7:00pm on Tuesday, 25 January 2022
Scheme Meeting **to be held virtually**	3:00pm on Thursday, 27 January 2022
If the Scheme is approved by the Requisite Majorities of Quantum Shareholders at the Scheme Meeting, the expected timetable for Implementation of the Scheme is:	
Second Court Hearing to approve the Scheme	3:00pm on Tuesday, 1 February 2022
Effective Date of Scheme The date on which the Scheme comes into effect and is binding on Quantum Shareholders. Court order lodged with ASIC and announcement to the ASX. Last day of trading in Quantum Shares on the ASX (with Quantum suspended from close of trading).	Wednesday, 2 February 2022
Scheme Record Date Determination of entitlement of Scheme Shareholders to receive Scheme Consideration.	7:00pm on Wednesday, 9 February 2022
Implementation Date Transfer of all Scheme Shares to Paragon and issue of Scheme Consideration to Scheme Shareholders (or Sale Agent on behalf of Ineligible Foreign Shareholders).[1]	Wednesday, 16 February 2022
Trading of Consideration Shares commences on an ordinary settlement basis.	Thursday, 17 February 2022

Unless stated otherwise, all times in this Scheme Booklet are references to the time in Sydney, Australia.

These dates and times are indicative only and are subject to change. The actual times and dates will depend on many factors outside the control of Quantum, including the Court approval process and the satisfaction or, where applicable, waiver of the conditions precedent in the Scheme Implementation Deed. Any changes to the above timetable will be notified on Quantum's website at qhealthcare.com.au and announced to the ASX.

[1] New Paragon Shares will be issued to the Sale Agent on behalf of Ineligible Foreign Shareholders. See Section 3.3.5.

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Letter from the Chair of Quantum

17 December 2021

Dear Shareholder

On behalf of the Quantum Directors, I am pleased to introduce this Scheme Booklet, which contains information for your consideration in relation to the proposed acquisition of Quantum Heath Group Limited (**Quantum**) by Paragon Care Limited (**Paragon**).

The Scheme

On 8 November 2021, Quantum announced to the ASX that it had signed a Scheme Implementation Deed under which it is proposed that Paragon will acquire all of the issued shares in Quantum, and in return, Paragon will issue to Quantum Shareholders 0.243 Paragon Shares (**Scheme Consideration**) for each Quantum Share they own as at the Scheme Record Date.

Implementation of the Scheme is subject to certain conditions, including approvals by the Requisite Majorities of Quantum Shareholders, Court and regulatory approvals, that no prescribed occurrence or material breach of warranty occurs, and other customary conditions. Details regarding the conditions precedent are set out in Section 3.5.1 of the Scheme Booklet.

If the Scheme is approved and implemented, the Scheme Consideration will be issued to Quantum Shareholders who are registered as such on the Scheme Record Date (which will be after the Scheme is approved by Quantum Shareholders and the Court).

Directors' recommendation

Each of the Quantum Directors recommends that Quantum Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders.[2] Subject to these same qualifications, each of the Quantum Directors intends to vote all Quantum Shares that they hold or control in favour of the Scheme.

The Quantum Directors have concluded that the scheme is compelling for Quantum Shareholders for a range of reasons, including:

- the combination of the Quantum and Paragon businesses is expected to have a number of benefits including enhanced growth and diversification opportunities;
- the scrip Scheme Consideration means that Quantum Shareholders[3] will remain shareholders in the Merged Group and will access the benefits of combining with Paragon, while retaining exposure to Quantum's current business;

[2] When considering this recommendation, Quantum Shareholders should note that two of the Quantum Directors (being John Walstab, Managing Director and CEO and Drew Townsend, Non-Executive Director and Chair) are substantial shareholders of Quantum. They have also provided Related Party Loans to Quantum which are required to be repaid as a condition precedent to the Scheme. See Sections 1.2.3 and 9.1 for further information.

[3] Ineligible Foreign Shareholders will not be eligible to be issued Paragon Shares under the Scheme. Refer to the queries 'I am a foreign Quantum Shareholder. Does that make me an Ineligible Foreign Shareholder?' and 'How will Ineligible Foreign Shareholders be treated under the Scheme?' in Section 2 (Key Questions) for further information.

- the Independent Expert has concluded that the Scheme is in the best interests of Quantum Shareholders in the absence of a superior proposal;
- since the announcement of the Merger on 8 November 2021, no alternative proposal has emerged; and
- Quantum's share price may fall if the Scheme does not proceed.

In forming their view that the Scheme is in the best interest of Quantum Shareholders, the Quantum Directors considered the disadvantages of the Scheme proceeding, including that:

- there are risks associated with the integration of Quantum and Paragon;
- Quantum Shareholders may wish to confine their investment and exposure to a business with Quantum's specific characteristics; and
- the future value of Paragon Shares in not certain.

These considerations are described further in Section 1 of this Scheme Booklet.

Independent Expert

Quantum appointed Leadenhall Corporate Advisory Pty Ltd as the Independent Expert to assess the merits of the Scheme. The Independent Expert has concluded that the Scheme is in the best interests of Quantum Shareholders in the absence of a superior proposal.

A complete copy of the Independent Expert's Report is included in this Scheme Booklet.

How to vote

The Scheme can only be implemented if it is approved by the Requisite Majorities of Quantum Shareholders at the Scheme Meeting (being 75% of votes cast and unless the Court orders otherwise, a majority of shareholders voting), and if it is subsequently approved by the Court.

You may want to vote before or during the virtual Scheme Meeting, or by appointing a proxy, attorney or body corporate representative to attend the virtual Scheme Meeting to vote on your behalf.

If you do not wish to or are unable to attend the virtual Scheme Meeting, you may vote by:

- completing the Proxy Form and returning it to Boardroom; or
- submitting your vote online at https://www.votingonline.com.au/QTMSchemeMeeting22,

by no later than 3:00pm on Tuesday, 25 January 2022.

Further Information

The Scheme Booklet sets out further information relating to the Scheme, including the reasons for the Quantum Directors' recommendation and the Independent Expert's Report. I encourage you to read this Scheme Booklet carefully and in its entirety as it contains important information that you should consider before you vote on the Scheme Resolutions. You should also consult your independent legal, financial, taxation or other professional adviser before making an investment decision in relation to your Quantum Shares.

If you have any further questions regarding the Scheme or this Scheme Booklet, you should contact the Quantum Shareholder Information Line on 1300 737 760 (within Australia) or +61 2 9290 9600 (outside Australia) on Business Days between 9:00am and 5:30pm (Sydney time).

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On behalf of the Quantum Directors, I thank you for your ongoing support of Quantum.

Yours faithfully

Drew Townsend
Chair
Quantum Health Group Limited

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Letter from the Chair of Paragon

17 December 2021

Dear Quantum Shareholder,

The Paragon Board, together with the Quantum Board, is pleased to provide you with the opportunity to participate in the Merger of Paragon and Quantum to create a stronger Asia Pacific medical equipment, devices and consumables business.

The combination of Paragon and Quantum is supported by the Quantum Board who unanimously recommend that Quantum Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders.[4] Leadenhall Corporate Advisory, the Independent Expert, has concluded that the Scheme is in the best interests of Quantum Shareholders.

Paragon is a provider of medical equipment, devices, and consumables to the healthcare markets in Australia and New Zealand. The Paragon Board considers that the successful Implementation of the Scheme and ultimate Merger will lead to:

- diversification across revenue streams, product portfolios, customers and geographies;
- the creation of an expanded Asia Pacific operation that will benefit existing suppliers to both Quantum and Paragon and attract new suppliers;
- enhanced growth opportunities in Asia, particularly for the Immulab blood reagent business in Paragon's diagnostics pillar;
- an expanded earnings base with strengthened balance sheet capacity that will provide additional opportunities for growth in the future;
- a strengthened and expanded leadership team; and
- a larger ASX-listed company with enhanced share liquidity, better placed to attract strategic and institutional investors, and pursue growth and revaluation opportunities.

The Paragon Board believes that the Merged Group can be expected to deliver stronger returns to its shareholders than either Paragon or Quantum could achieve on a standalone basis.

Further details of the benefits of the Merger to Quantum Shareholders are detailed in the reasons to vote in favour of the Scheme set out in Section 1.2 of this Scheme Booklet. A summary of the reasons identified by the Quantum Directors as to why you may not want to vote in favour of the Scheme is set out in Section 1.3 of this Scheme Booklet.

As a Quantum Shareholder, your vote is important to ensure that the Scheme is Implemented and the benefits of the Merger can be realised.

The Paragon Board believes that the Scheme is an exciting, transformational opportunity for Quantum Shareholders. We look forward to your participation at the Scheme Meeting to be held at 3:00pm (Sydney time) on Thursday, 27 January 2022 and encourage you to vote in favour of the Merger. I am

[4] When considering this recommendation, Quantum Shareholders should note that two of the Quantum Directors (being John Walstab, Managing Director and CEO and Drew Townsend, Non-Executive Director and Chair) are substantial shareholders of Quantum. They have also provided Related Party Loans to Quantum which are required to be repaid as a condition precedent to the Scheme. See Sections 1.2.3 and 9.1 for further information.

extremely excited by the prospects for the combined entity and I look forward to welcoming you as a shareholder of the Merged Group following Implementation of the Scheme.[5]

Yours sincerely,

Shane Tanner
Chairman
Paragon Care Limited

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[5] Some Scheme Shareholders will not be eligible to be issued Paragon Shares under the Scheme. Refer to the queries '*I am a foreign Quantum Shareholder. Does that make me an Ineligible Foreign Shareholder?*' and '*How will Ineligible Foreign Shareholders be treated under the Scheme?*' in Section 2 (Key Questions) for further information.

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Actions for Quantum Shareholders

Carefully read this Scheme Booklet

This Scheme Booklet contains information that is material to your decision whether or not to approve the Scheme by voting in favour of the Scheme Resolution. Accordingly, you should read this Scheme Booklet in its entirety before making a decision on how to vote on the Scheme Resolution.

If you are in any doubt as to what you should do, you should also consult your legal, financial, tax or other professional adviser. Answers to some common questions are contained in Section 2 titled 'Key questions'. If you have any additional questions about the Merger or the Scheme Booklet, please contact the Quantum Shareholder Information Line on 1300 737 760 (within Australia) or +61 2 9290 9600 (outside Australia) on Business Days between 9:00am and 5:30pm (Sydney time).

A full copy of this Scheme Booklet is available from the ASX website at www2.asx.com.au and on Quantum's website at https://qhealthcare.com.au/cg/.

Voting

Scheme Meeting

The Court has ordered Quantum to convene the Scheme Meeting for 3:00pm (Sydney time) on Thursday, 27 January 2022 at which Quantum Shareholders will be asked to consider the Scheme. The Scheme Meeting will be held virtually. Quantum Shareholders will be able to participate in the virtual meeting by following the instructions below.

The Scheme Resolution to be considered at the Scheme Meeting is contained in the Notice of Scheme Meeting in Annexure 4.

Voting is not compulsory. However, **the Quantum Directors unanimously recommend that Quantum Shareholders vote in favour of the Scheme** in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders.[6]

Who is entitled to vote?

All Quantum Shareholders who are on the Register as at 7:00pm (Sydney time) on Tuesday, 25 January 2022 will be entitled to vote on the Scheme either before or during the virtual Scheme Meeting, by proxy, by attorney or, in the case of a corporation, by corporate representative (subject to restrictions on voting rights set out in the Notice of Scheme Meeting in Annexure 4).

If Scheme Shares are jointly held, only one of the joint holders is entitled to vote. If more than one shareholder votes in respect of jointly held Scheme Shares, only the vote of the shareholder whose name appears first on the Register will be counted.

How to Participate?

The Scheme Meeting will be held via an online platform, which will allow Quantum Shareholders and proxyholders to watch, vote, make comments and ask questions during the Scheme Meeting in real time, regardless of their location.

[6] When considering this recommendation, Quantum Shareholders should note that two of the Quantum Directors (being John Walstab, Managing Director and CEO and Drew Townsend, Non-Executive Director and Chair) are substantial shareholders of Quantum. They have also provided Related Party Loans to Quantum which are required to be repaid as a condition precedent to the Scheme. See Sections 1.2.3 and 9.1 for further information.

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To participate in the Scheme Meeting, Quantum Shareholders and proxyholders will need a computer or mobile/tablet device with internet access. Quantum Shareholders and proxyholders will then need to enter the following URL in their browser:

web.lumiagm.com/362841964

Quantum Shareholders will also need the following information to access the Scheme Meeting:

- **Scheme Meeting ID**: 362-841-964;
- **Voting Access Code (VAC)**: located on your Proxy Form or Scheme Meeting notification email, which will be sent to you by Quantum's share registry, Boardroom; and
- **Password**: your postcode registered on your holding if you are an Australian Quantum Shareholder. Quantum Shareholders from outside of Australia should refer to the Scheme Meeting Online User Guide which is attached to this Scheme Booklet.

The website will be open and available from 2:00pm (Sydney Time), 27 January 2022.

How to vote

You can vote:

- online ahead of the Scheme Meeting by visiting https://www.votingonline.com.au/QTMSchemeMeeting22;
- during the virtual Scheme Meeting and voting via the online platform, or;
- by appointing a proxy to attend and vote on your behalf;
- using a power of attorney. You are entitled to appoint an attorney to attend and vote on your behalf; or
- by a corporate representative. Corporate shareholders are entitled to appoint a corporate representative to attend and vote on their behalf.

Quantum Shareholders who are unable to join the Scheme Meeting are encouraged to submit votes ahead of the Scheme Meeting or appoint a proxy to participate and vote on their behalf. If you direct your proxy how to vote, your votes will be cast at the Scheme Meeting in accordance with your direction.

Even if you plan to participate in the virtual Scheme Meeting, you are still encouraged to submit an online vote or directed proxy in advance of the Scheme Meeting so that your votes can still be counted if for any reason you cannot participate (for example, if there is an issue with your internet connection on the day of the Scheme Meeting).

Further details are set out below.

How to participate in the virtual Scheme Meeting

The Scheme Meeting commences at 3:00pm (Sydney time) on Thursday, 27 January 2022.

The Scheme Meeting will be held virtually via an online platform, which will allow Quantum Shareholders and proxyholders to watch, vote, make comments and ask questions during the Scheme Meeting in real time, regardless of their location.

To participate in the Scheme Meeting, Quantum Shareholders and proxyholders will need a computer or mobile/tablet device with internet access. Quantum Shareholders and proxyholders will then need to enter the following URL in their browser:

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- **Password**: your postcode registered on your holding if you are an Australian Quantum Shareholder. Quantum Shareholders from outside of Australia should refer to the Scheme Meeting Online User Guide which is attached to this Scheme Booklet.

The website will be open and available from 2:00pm (Sydney Time) on Thursday, 27 January 2022.

Voting at the virtual Scheme Meeting

Quantum Shareholders and proxyholders will be able to participate in the meeting online by visiting web.lumiagm.com on a smartphone, tablet or computer (using the latest version of Chrome, Safari, Internet Explorer 11, Edge or Firefox) and entering the 9 digit meeting ID detailed below:

362-841-964

You will then need to enter your username and password.

- Your username is your Voting Access Code which is on your Proxy Form or Scheme Meeting email.
- Your password is your postcode registered on your holding if you are an Australian Quantum Shareholder. For Quantum Shareholders from outside of Australia your password will be your "country code" which can be found in the Scheme Meeting Online User Guide.

Once polls are open, Quantum Shareholders and proxyholders can vote by clicking on the bar chart icon.

Voting online

To lodge your vote online ahead of the Scheme Meeting please follow the instructions on your Proxy Form or Scheme Meeting email.

Quantum Shareholders who cast a vote on a resolution before the Scheme Booklet by lodging a valid vote will still be entitled to lodge a further direct vote on that resolution online during the Scheme Meeting, with the later vote overriding the earlier vote.

Voting by proxy

If you cannot attend the Scheme Meeting, you can appoint a proxy by following the instructions below. A proxy need not be a Quantum Shareholder.

You can submit your proxy online at https://www.votingonline.com.au/QTMSchemeMeeting22 by no later than 3:00pm on Tuesday, 25 January 2022. To use this facility you will need your VAC and postcode.

If you want to appoint a proxy using the Proxy Form, then the Proxy Form (together with any power of attorney or other authority under which the Proxy Form is signed or a certified copy of that power of attorney or authority) must be:

- posted to Boardroom in the reply paid envelope provided or, if you are outside of Australia or do not otherwise use the reply paid envelope, to Quantum Health Group Limited c/- Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001;
- by hand, at Boardroom Pty Limited: Level 12, 225 George Street, Sydney NSW 2000; or
- by facsimile, on +61 2 9290 9655.

so that it is received by no later than 3:00pm on Tuesday, 25 January 2022.

Your proxy should retain a copy of the Proxy Form (together with any power of attorney or other authority under which the Proxy Form is signed or a certified copy of that power of attorney or authority).

Voting by attorney

If you cannot attend the Scheme Meeting, you may have a duly authorised attorney attend virtually and vote on your behalf. An attorney need not be a Quantum Shareholder.

The power of attorney, or a certified copy of the power of attorney, should be lodged with Boardroom at the address listed above for the receipt of proxy appointments by no later than 3:00pm on Tuesday, 25 January 2022.

Voting by corporate representative

Quantum Shareholders which are bodies corporate can also vote at the Scheme Meeting by having your corporate representative attend the virtual Scheme Meeting and voting on your behalf. If a representative of a Quantum Shareholder or corporate proxy is to attend a Scheme Meeting pursuant to section 250D of the Corporations Act, a certificate of appointment of the representative (or such other document as the Chair of the Scheme Meeting considers sufficient together with any power of attorney or other authority under which the certificate or other document is signed or a certified copy of that power of attorney or authority) should be lodged with Boardroom at the address listed above for the receipt of proxy appointments by no later than 3:00pm on Tuesday, 25 January 2022.

A form of certificate can be obtained from Boardroom.

Asking questions at the Scheme Meeting

Only Quantum Shareholders or appointed proxyholders may ask questions.

Quantum will endeavour to address as many of the more frequently raised relevant questions as possible during the course of the Scheme Meeting. However, there may not be sufficient time available at the Scheme Meeting to address all questions raised. Quantum asks that Quantum Shareholders are courteous and respectful to all other Quantum Shareholders participating in the Scheme Meeting, and notes that the Chair reserves the right to ensure that the Scheme Meeting is conducted in a way that gives as many Quantum Shareholders as possible an opportunity to be heard.

Using the Lumi Platform

Please refer to the Scheme Meeting Online User Guide attached to this Scheme Booklet on a step by step process on how to log on, ask questions and vote online.

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1 Key considerations relevant to your vote

The Quantum Directors unanimously recommend that Quantum Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders.[7]

The Scheme has a number of advantages and disadvantages that may affect Quantum Shareholders in different ways depending on their individual circumstances. Those advantages and disadvantages are described in this Section 1, a summary of which is set out in Section 1.1.

Section 1.2 describes some of the reasons why Quantum Shareholders may wish to vote in favour of the Scheme. This should be read in conjunction with Section 1.3, which sets out reasons why Quantum Shareholders may wish to vote against the Scheme. Section 1.4 also sets out some additional considerations that may be relevant to your vote in respect of the Scheme.

While the Quantum Directors acknowledge the reasons to vote against the Scheme, they believe the advantages of the Scheme significantly outweigh the disadvantages.

You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote. You should also seek professional advice on your particular circumstances, as appropriate.

1.1 Summary of reasons to vote in favour of or against the Scheme

1.1.1 Summary of reasons to vote in favour of the Scheme

- ✓ The combination of the Quantum and Paragon businesses is expected to have a number of benefits including enhanced growth and diversification opportunities
- ✓ The scrip Scheme Consideration means that Eligible Shareholders will remain shareholders in the Merged Group
- ✓ The Quantum Directors have assessed the merits of the Scheme and unanimously recommend that Quantum Shareholders vote in favour of the Scheme[8], in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders[9]
- ✓ The Independent Expert has concluded that the Scheme is in the best interests of Quantum Shareholders, in the absence of a superior proposal
- ✓ No Superior Proposal has emerged since the announcement of the Scheme
- ✓ No brokerage will be payable by you for the transfer of your Quantum Shares if the Scheme proceeds (provided you are not an Ineligible Foreign Shareholder)

[7] When considering this recommendation, Quantum Shareholders should note that two of the Quantum Directors (being John Walstab, Managing Director and CEO and Drew Townsend, Non-Executive Director and Chair) are substantial shareholders of Quantum. They have also provided Related Party Loans to Quantum which are required to be repaid as a condition precedent to the Scheme. See Sections 1.2.3 and 9.1 for further information.

[8] See footnote 7 above.

[9] In reaching its conclusion, the Independent Expert considered both the advantages and disadvantages of the Scheme for Quantum Shareholders (see section 10.2 of the Independent Expert's Report).

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1.1.2 Summary of reasons why you may consider voting against the Scheme

- ✗ You may disagree with the Quantum Directors' unanimous recommendation and the Independent Expert's conclusion[10] and consider that the Scheme is not in your best interests
- ✗ The tax consequences of the Scheme for you may not suit your financial position
- ✗ You may wish to confine your investment and exposure to a business with Quantum's specific characteristics
- ✗ You may consider that there are risks associated with the integration of Quantum and Paragon which exceed the benefits of the Scheme
- ✗ You may consider that there is potential for a Superior Proposal to be made in the foreseeable future. However, since the announcement of entry into the Scheme Implementation Deed on 8 November 2021 to the date of this Scheme Booklet, no Superior Proposal has been received by the Quantum Directors
- ✗ The future value of Paragon Shares is not certain

1.2 Reasons to vote in favour of the Scheme

1.2.1 Diversification and expansion of Asia Pacific operations

As explained in Section 6.2, the Paragon Board considers that the successful Implementation of the Scheme and ultimate Merger will lead to a number of benefits including:

(a) diversification across revenue streams, product portfolios, customers, and geographies; and

(b) the creation of an expanded Asia Pacific operation that will benefit existing suppliers to both Quantum and Paragon and attract new suppliers.

Accordingly, the Merged Group is expected to deliver stronger returns to its shareholders than Quantum could achieve on a standalone basis.

1.2.2 Scrip consideration offered under the Scheme

Upon Implementation, Scheme Shareholders will own approximately 43.83% of Paragon.[11]

The Scheme Consideration means that Eligible Shareholders (being Scheme Shareholders other than Ineligible Foreign Shareholders) will remain shareholders in the Merged Group and will access the benefits of combining with Paragon, while retaining exposure to Quantum's current business.

1.2.3 Quantum Directors' recommendation

The Quantum Directors have assessed the merits of the Scheme and unanimously recommend that Quantum Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders.

In reaching their recommendation, the Quantum Directors have considered the reasons to vote in favour of, or against, the Scheme as set out in this Scheme Booklet.

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[10] In reaching its conclusion, the Independent Expert considered both the advantages and disadvantages of the Scheme for Quantum Shareholders (see section 10.2 of the Independent Expert's Report).

[11] This includes the new Paragon Shares that will be issued to the Sale Agent on behalf of Ineligible Foreign Shareholders. See Section 3.3.5.

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Quantum Shareholders should note that when considering this recommendation that two of the Quantum Directors (being John Walstab, Managing Director and CEO and Drew Townsend, Non-Executive Director and Chair) are substantial shareholders of Quantum. As shareholders in Quantum, Mr Walstab and Mr Townsend will each be eligible to receive the Scheme Consideration in the same manner as each other Scheme Shareholder. They have also provided Related Party Loans to Quantum which are required to be repaid as a condition precedent to the Scheme. The interests of the Quantum Directors are described in more detail in Section 9.1.

Despite these interests, each of John Walstab and Drew Townsend consider that, given the importance of the Scheme, and their role as directors of Quantum, it is important and appropriate for them to provide a recommendation to Quantum Shareholders in relation to voting on the Scheme. The Quantum Board (other than John Walstab and Drew Townsend) also considers that it is appropriate for them to make a recommendation on the Scheme given their role in the management or oversight of Quantum.

1.2.4 The Independent Expert has concluded that the Scheme is in the best interests of Quantum Shareholders, in the absence of a superior proposal

Quantum has appointed Leadenhall Corporate Advisory Pty Ltd as the Independent Expert to assess the merits of the Scheme and to provide an opinion as to whether the Scheme is in the best interests of Quantum Shareholders.

The Independent Expert considers that the Scheme is not fair but reasonable and the advantages to Quantum Shareholders outweigh the disadvantages (see section 10 of the Independent Expert's Report).

The Independent Expert has concluded that the Scheme is in the best interests of Quantum Shareholders, in the absence of a superior proposal.

In reaching its conclusion, the Independent Expert considered both the advantages and disadvantages of the Scheme for Quantum Shareholders and these are set out in section 10.2 of the Independent Expert's Report.

A complete copy of the Independent Expert's Report is included as Annexure 1 to this Scheme Booklet and the Quantum Directors encourage you to read it in full. The Scheme will not be implemented unless the Scheme Resolution is passed by the Requisite Majorities.

1.2.5 No Superior Proposal has emerged since the announcement of the Scheme

Between the announcement on 8 November 2021 of the Scheme Implementation Deed being signed and the date of this Scheme Booklet, no Competing Proposal has emerged.

The Quantum Directors have not become aware of any Competing Proposal and have no basis for believing that they will receive any Superior Proposal.

1.2.6 No brokerage will be payable by you for the transfer of your Quantum Shares if the Scheme proceeds (provided you are not an Ineligible Foreign Shareholder)

You will not incur brokerage on the transfer of your Quantum Shares to Paragon under the Scheme. If you sell your Quantum Shares on ASX (rather than disposing of them via the Scheme), you may incur brokerage charges (and, potentially, GST on those charges).

Brokerage fees may be deducted from the Sale Proceeds payable to Ineligible Foreign Shareholders – see Section 3.3.5.

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1.3 Reasons to not vote in favour of the Scheme

As stated above:

(a) the Quantum Directors unanimously recommend that Quantum Shareholders vote in favour of the Scheme in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders;[12] and

(b) the Independent Expert has concluded that the Scheme is in the best interests of Quantum Shareholders in the absence of a superior proposal.

Despite this recommendation and this conclusion, Quantum Shareholders should read and consider the following reasons to not vote in favour of the Scheme when determining how to exercise their vote at the Scheme Meeting.

1.3.1 You may disagree with the Quantum Directors' unanimous recommendation and the Independent Expert's conclusion and consider that the Scheme is not in your best interests

Despite the view of the Quantum Directors and the Independent Expert, you may believe that the Scheme is not in the best interests of Quantum Shareholders or not in your individual interest.

1.3.2 The tax consequences of the Scheme for you may not suit your financial position

Implementation of the Scheme may trigger tax consequences for Quantum Shareholders. A general guide to the Australian taxation implications of the Scheme is set out in Section 8. This guide is expressed in general terms only and Quantum Shareholders should seek professional taxation advice with respect to their own individual tax situation.

1.3.3 You may wish to confine your investment and exposure to a business with Quantum's specific characteristics

Quantum Shareholders may wish to keep their Quantum Shares and preserve their investment in a publicly listed company with the specific characteristics of Quantum.

Even though the businesses of Quantum and Paragon are largely complementary, the asset composition and exposure, earnings mix and risk profile of the two companies on a standalone basis are different. Sections 4 and 5 set out further detail on the standalone businesses of Quantum and Paragon respectively.

Implementation of the Scheme may represent a disadvantage if you do not want to change your investment profile.

Quantum Shareholders should read this Scheme Booklet carefully to understand the implications of the Scheme and should seek investment, legal, or other professional advice in relation to their own circumstances. Further information on the Merged Group can be found at Section 6.

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[12] When considering this recommendation, Quantum Shareholders should note that two of the Quantum Directors (being John Walstab, Managing Director and CEO and Drew Townsend, Non-Executive Director and Chair) are substantial shareholders of Quantum. They have also provided Related Party Loans to Quantum which are required to be repaid as a condition precedent to the Scheme. See Sections 1.2.3 and 9.1 for further information.

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1.3.4 You may consider that there are risks associated with the integration of Quantum and Paragon which exceed the benefits of the Scheme

Quantum Shareholders may believe that the integration of Quantum and Paragon will be more complicated, may take more time or may require costs which are not anticipated. Additionally, Quantum Shareholders may also believe that a failure to achieve a meaningful level of benefits within an acceptable timeframe or in their entirety may have an unforeseen or adverse effect on the operations, financial performance or financial position of the Merged Group.

Further detail on the risks associated with the integration of Quantum and Paragon can be found in Section 7.

1.3.5 You may consider that there is potential for a Superior Proposal to be made in the foreseeable future

It is possible that, if Quantum were to continue as an independent listed entity, a corporate control proposal for Quantum could materialise in the future. Implementation of the Scheme will mean that Quantum Shareholders will not receive the benefit of any such proposal.

Since the announcement of the Scheme to ASX by Quantum on 8 November 2021 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the Quantum Directors are not aware of any Superior Proposal that is likely to emerge.

1.3.6 The future value of the Paragon Shares is not certain

If the Scheme is Implemented, Eligible Shareholders (being Scheme Shareholders other than Ineligible Foreign Shareholders) will receive Scheme Consideration in the form of 0.243 new Paragon Shares for each Quantum Share held as at the Scheme Record Date.[13]

If the Scheme is approved by Quantum Shareholders, the trading value of the Paragon Shares received as Scheme Consideration will depend on the price at which the shares in Paragon trade on the ASX. The price of the Paragon Shares may rise or fall based on market conditions and the financial and operational performance of the Merged Group.

Accordingly, there is no guarantee as to the future value of the Scheme Consideration to be received by Quantum Shareholders if the Scheme is Implemented.

1.4 Other key considerations in relation to voting on the Scheme

Quantum Shareholders should also take into account the following additional considerations in determining how to exercise their vote at the Scheme Meeting.

1.4.1 What happens if the Scheme does not proceed?

If the Scheme does not proceed:

- Quantum Shareholders will continue to hold their Quantum Shares and the rights of Quantum Shareholders will not change. A number of risks associated with an investment in Quantum are outlined in Section 7;
- Quantum Shareholders will not receive the Scheme Consideration;
- Quantum will continue to operate as a standalone entity listed on the ASX under the leadership of the current Quantum Board and management; and

[13] The actual number of Paragon Shares received may be subject to the effect of rounding.

- in the absence of a Superior Proposal, the market price for Quantum Shares may fall.

Quantum has incurred significant costs in respect of the Scheme. These costs include those incurred to conduct negotiations with Paragon, retention of advisers, engagement of the Independent Expert and preparation of this Scheme Booklet. If the Scheme is not Implemented, Quantum expects to incur total external costs relating to the Scheme in the order of $744,000 (excluding GST) (including costs already incurred). In addition, depending on the reasons why the Scheme does not proceed, Quantum may be obliged to pay the Break Fee discussed in Section 3.5.3 below.

1.4.2 The Scheme may be Implemented even if you do not vote, or if you vote against the Scheme

You should be aware that even if you do not vote, or you vote against the Scheme, the Scheme may still be Implemented if it is approved by the Requisite Majorities of Quantum Shareholders at the Scheme Meeting and by the Court and all other conditions precedent to the Scheme are either satisfied or waived (as applicable).

If this occurs and you are a Scheme Shareholder, your Quantum Shares will be transferred to Paragon and you will receive the Scheme Consideration even though you did not vote on, or voted against, the Scheme.

1.4.3 Conditionality of the Scheme

There are a number of conditions precedent which must be satisfied or waived prior to the Scheme being Implemented. Full details of these conditions are provided in Section 3.5.1 of this Scheme Booklet.

As at the date of this Scheme Booklet, Quantum is not aware of any circumstances which would cause the outstanding conditions precedent not to be satisfied or (where applicable) waived.

1.4.4 Warranty by Scheme Shareholders

If the Scheme is Implemented, each Scheme Shareholder will be deemed to have warranted to Quantum and Paragon, and to have appointed and authorised Quantum as its attorney and agent to warrant to Paragon, on the Implementation Date that:

(a) all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, at the date of transfer of them to Paragon pursuant to the Scheme, be fully paid and free from all Encumbrances, third party interests (whether legal or equitable) or restrictions on transfer;

(b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) to Paragon under the Scheme; and

(c) they have no existing right to be issued any Quantum Shares or other securities in Quantum.

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2 Key questions

This Section answers some frequently asked questions about the Scheme. It is not intended to address all relevant issues for Quantum Shareholders and should be read together with all other Sections of this Scheme Booklet.

Question	Answer	More information
OVERVIEW OF THE SCHEME		
Why have I received this Scheme Booklet?	This Scheme Booklet has been sent to you because you are a Quantum Shareholder and Quantum Shareholders are being asked to vote on the Scheme. This Scheme Booklet is intended to help you to decide how to vote on the Scheme Resolution which needs to be passed at the Scheme Meeting to allow the Scheme to proceed.	N/A
What is the Scheme?	The Scheme involves Paragon acquiring all of the Quantum Shares as at the Scheme Record Date, for the Scheme Consideration. It will do so by means of a scheme of arrangement, which is a statutory arrangement to facilitate an acquisition of shares under Part 5.1 of the Corporations Act. The Scheme requires a vote in favour of the Scheme by the Requisite Majorities of Quantum Shareholders at the Scheme Meeting, followed by approval by the Court at the Second Court Hearing, to become binding on Quantum Shareholders. The Scheme Consideration is outlined under "What is the Scheme Consideration?" below.	Section 3 of this Scheme Booklet contains a summary of the Scheme and the Scheme Consideration. A copy of the Scheme is contained in Annexure 2 to this Scheme Booklet.
What is the Scheme Implementation Deed and is it binding on me?	The Scheme Implementation Deed contains various undertakings by Quantum and Paragon to pursue and progress the Scheme. The key terms of the Scheme Implementation Deed are summarised in Section 3.5. The Scheme Implementation Deed is binding on Quantum only and not on Quantum Shareholders. The Scheme will only become binding on Quantum Shareholders if and when the Scheme becomes Effective, which will only occur if: • the Scheme is approved by the Requisite Majorities of Quantum Shareholders at the Scheme Meeting; • the Scheme is approved by the Court at the Second Court Hearing; and • a copy of the Court orders is lodged with ASIC.	Section 3.4 of this Scheme Booklet contains a summary of the Scheme Implementation Deed.
What do the Quantum Directors recommend and how do they intend to vote?	The Quantum Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders. When considering this recommendation, Quantum Shareholders should note that two of the Quantum Directors (being John Walstab, Managing Director and CEO and Drew Townsend, Non-Executive Director and Chair) are substantial shareholders of Quantum. They have also provided Related Party Loans to Quantum which are required to be repaid as a condition precedent to the Scheme. See Sections 1.2.3 and 9.1 for further information. Subject to these same qualifications, each of the Quantum Directors intend to vote all Quantum Shares that they hold or control in favour of the Scheme. John Walstab (Chief Executive Officer and Managing Director) and Drew Townsend (Chair) have direct and indirect interests in 45.62% and 11.81% of the Quantum Shares on issue, respectively and no other Quantum Director has an interest in Quantum Shares.	Section 1.2 describes some of the reasons for the Quantum Directors' unanimous recommendation. The interests of the Quantum Directors are described in Section 8.

Question	Answer	More information
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Scheme is in the best interests of Quantum Shareholders in the absence of a superior proposal.	A copy of the Independent Expert's Report is set out in Annexure 1 to this Scheme Booklet.
What should I do?	**The Quantum Directors unanimously recommend that Quantum Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders.**[14] Quantum Shareholders should read this Scheme Booklet carefully and in its entirety. Quantum Shareholders may also choose to consult independent legal, investment, tax or other professional advisers in relation to any of the information in this Scheme Booklet. Based on this Scheme Booklet and any independent advice you may receive, you should determine how you wish to vote on the Scheme. You are able to vote either before or during the Scheme Meeting, or by appointing a proxy, attorney, or, in the case of a corporate Quantum Shareholders, a corporate representative, to vote on your behalf.	'Actions for Quantum Shareholders' and Annexure 4
Who is Paragon?	Paragon (ASX:PGC) is an Australian based ASX listed company operating in the healthcare sector. Paragon is a provider of medical equipment, devices and consumables for the Australian and New Zealand healthcare markets. Paragon's intentions in relation to the Merged Group if the Scheme becomes Effective are discussed in Section 6.	Sections 5 and 6
Who is entitled to participate in the Scheme?	Persons who hold Quantum Shares on the Scheme Record Date can participate in the Scheme. Such persons are referred to as "Scheme Shareholders" in this Scheme Booklet.	Sections 3.7, 3.3.2 and 3.3.3
Who is bound by the Scheme?	The Scheme is binding on Quantum and the Scheme Shareholders. In addition, Paragon is bound to comply with its obligations under the Scheme through the Deed Poll.	Sections 3.1 and 3.7

[14] When considering this recommendation, Quantum Shareholders should note that two of the Quantum Directors (being John Walstab, Managing Director and CEO and Drew Townsend, Non-Executive Director and Chair) are substantial shareholders of Quantum. They have also provided Related Party Loans to Quantum which are required to be repaid as a condition precedent to the Scheme. See Sections 1.2.3 and 9.1 for further information.

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Question	Answer	More information
ASSESSMENT OF THE SCHEME		
What are the reasons to vote in favour of the Scheme?	You may consider voting in favour of the Scheme for the following reasons: • The combination of the Quantum and Paragon businesses is expected to have a number of benefits including enhanced growth and diversification opportunities • The scrip Scheme Consideration means that Eligible Shareholders will remain shareholders in the Merged Group • The Quantum Directors have assessed the merits of the Scheme and unanimously recommend that Quantum Shareholders vote in favour of the Scheme,[15] in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders • The Independent Expert has concluded that the Scheme is in the best interests of Quantum Shareholders, in the absence of a superior proposal • No Superior Proposal has emerged since the announcement of the Scheme • No brokerage will be payable by you for the transfer of your Quantum Shares if the Scheme proceeds (provided you are not an Ineligible Foreign Shareholder) Please refer to Section 1.2 for a discussion of reasons why you may consider voting in favour of the Scheme.	Section 1.2
What are the reasons to vote against the Scheme?	You may consider voting against the Scheme for the following reasons: • You may disagree with the Quantum Directors' unanimous recommendation and the Independent Expert's conclusion[16] and consider that the Scheme is not in your best interests • The tax consequences of the Scheme for you may not suit your financial position • You may wish to confine your investment and exposure to a business with Quantum's specific characteristics • You may consider that there are risks associated with the integration of Quantum and Paragon which exceed the benefits of the Scheme • You may consider that there is potential for a Superior Proposal to be made in the foreseeable future. However, since the announcement of entry into the Scheme Implementation Deed on 8 November 2021 to the date of this Scheme Booklet, no Superior Proposal has been received by the Quantum Directors • The future value of Paragon Shares is not certain Please refer to Section 1.3 for a discussion of reasons why you may consider voting against the Scheme.	Section 1.3

[15] See footnote 7 above.

[16] See footnote 9 above.

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Question	Answer	More information
Are there other considerations relevant to voting on the Scheme?	There are a number of other considerations relevant to your vote including that the Scheme may be Implemented even if you do not vote in favour, the conditionality of the Scheme and that certain warranties are taken to be given by Scheme Shareholders. Please refer to Section 1.4 for a discussion of other considerations relevant to your vote on the Scheme.	Section 1.4
What will happen if the Scheme is not implemented?	If the Scheme does not proceed: • Quantum Shareholders will continue to hold their Quantum Shares and the rights of Quantum Shareholders will not change. A number of risks associated with an investment in Quantum are outlined in Section 7; • Quantum Shareholders will not receive the Scheme Consideration; • Quantum will continue to operate as a standalone entity listed on the ASX under the leadership of the current Quantum Board and management; and • in the absence of a Superior Proposal, the market price for Quantum Shares may fall. In addition, Quantum or Paragon may be required to pay the Break Fee depending on the circumstances in which the Scheme does not proceed. Some implications of the Scheme not being implemented are outlined in Section 1.4.	Section 1.4
Are there any conditions to the Scheme?	There are a number of conditions precedent which must be satisfied or waived (as applicable) prior to the Scheme being Implemented. In summary, the outstanding conditions are: • Quantum Shareholders approve the Scheme by the Requisite Majorities at the Scheme Meeting; • the Court must approve the Scheme at the Second Court Hearing; • no Quantum Material Adverse Change occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date • no Quantum Prescribed Event occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date;[17] • no Paragon Material Adverse Change occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date; • no Paragon Prescribed Event occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date;[18] • no legal proceeding, claim, investigation, arbitration or other like proceeding is instituted or made against the Paragon Group that would result, or would likely result, in payment by a member of the Paragon Group of an amount exceeding $4 million; • no legal proceeding, claim, investigation, arbitration or other like proceeding is instituted or made against the	Section 3.5.1

[17] Quantum and Paragon have agreed that Paragon may declare a dividend prior to Implementation provided that Quantum may also declare a proportionate dividend at the same time and that neither dividend declarations will be a Quantum Prescribed Event or a Paragon Prescribed Event. See also Section 9.3.

[18] See footnote 17 above.

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Question	Answer	More information
	Quantum Group that would result, or would likely result, in payment by a member of the Quantum Group of an amount exceeding $1.5 million; • no temporary restraining order, preliminary or permanent injunction, or other order is issued by any court of competent jurisdiction, no action or investigation is announced, commenced or threatened by any Governmental Agency, or other legal restraint or prohibition preventing any aspect of the Scheme unless such order, injunction decision, decree, action, investigation or application has been disposed of to the satisfaction of Paragon or is otherwise not in effect or enforceable as at 8:00am on the Second Court Date; • the representations and warranties of Quantum and Paragon in the Scheme Implementation Deed are true and correct in all material respects as at the dates at which they are expressed to be given; • approvals, relief and waivers from ASIC and ASX have been received, and there are no other legal restraints or prohibitions on the Scheme being implemented; • all Related Party Loans are fully repaid by 5:00pm on the Business Day before the Second Court Date; and • the Escrow Deed, in respect of any Consideration Shares to be issued to John Walstab or any of his Associates is validly executed on or before 5:00pm on the Business Day before the Second Court Date. As at the date of this Scheme Booklet, Quantum is not aware of any reason why the above conditions will not be satisfied or waived. The condition precedent requiring the Key Executives to enter into new employment agreements with a Quantum Group or Paragon Group member before 5:00pm on the Business Day before the Second Court Date in a form approved by Paragon has been waived by Paragon.	
Will I be affected if I do not vote, or if vote against the Scheme?	Even if you do not vote, or you vote against the Scheme, the Scheme may still be Implemented if it is approved by the Requisite Majorities of Quantum Shareholders at the Scheme Meeting and by the Court.	Section 1.4.2
Is there a break fee payable by Quantum?	Quantum has agreed to pay Paragon a Break Fee of $1 million (excluding any applicable GST) in certain circumstances. However, the Break Fee is not payable merely for the reason that Quantum Shareholders do not approve the Scheme at the Scheme Meeting.	Section 3.5.3
What are the risks associated with an investment in Quantum?	In considering the Scheme, Quantum Shareholders should be aware that there are a number of risk factors associated with an investment in Quantum. They are outlined in Section 7.	Section 7
What are the risks associated with an investment in Paragon?	In considering the Scheme, Quantum Shareholders should be aware that there are a number of risk factors associated with an investment in Paragon. They are outlined in Section 7.	Section 7

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Question	Answer	More information
SCHEME CONSIDERATION		
What will I receive if the Scheme is Implemented?	If the Scheme is Implemented and you hold Quantum Shares at the Scheme Record Date (provided that you are not an Ineligible Foreign Shareholder), you will receive 0.243 Paragon Shares for each Quantum Share you hold,[19] such that Quantum Shareholders' overall ownership of the Merged Group (i.e. Paragon immediately following Implementation) will be approximately 43.83% upon Implementation.[20] Due to rounding, a Quantum Shareholder will need to hold at least 5 Quantum Shares at the Scheme Record Date to receive one Paragon Share as Scheme Consideration.	Section 3.3
When and how will I receive my Scheme Consideration?	On the Implementation Date, Paragon will issue the Scheme Consideration to you provided you hold Quantum Shares at the Scheme Record Date (and that you are not an Ineligible Foreign Shareholder). You will receive a holding statement at your Registered Address within five Business Days of the Implementation Date.	Section 3.3
I am a foreign Quantum Shareholder. Does that make me an Ineligible Foreign Shareholder?	A Quantum Shareholder whose Registered Address as at the Scheme Record Date is a place outside Australia and its external territories, New Zealand, Thailand or South Korea will be classified as an Ineligible Foreign Shareholder, unless Quantum and Paragon jointly determine that it is lawful and not unduly onerous or impracticable to issue to that Quantum Shareholder Paragon Shares when the Scheme becomes Effective.	Sections 3.3.3 and 3.3.5
How will Ineligible Foreign Shareholders be treated under the Scheme?	All Quantum Shareholders are invited to participate in the Scheme and Ineligible Foreign Shareholders will participate in the Scheme on the same basis as each of the Eligible Shareholders. However, Paragon Shares will not be issued to Ineligible Foreign Shareholders. Instead, the Paragon Shares to which the Ineligible Foreign Shareholders would otherwise have been entitled, will be issued to a Sale Agent to be sold on the ASX. The Sale Agent will sell those Paragon Shares as soon as reasonably practicable after the Implementation Date and the Sale Agent will remit the Sale Proceeds for the Paragon Shares to Quantum. Quantum will then remit to each Ineligible Foreign Shareholder the Sale Proceeds attributable to the Paragon Shares to which the Ineligible Foreign Shareholder would otherwise have been entitled (after deducting any reasonable and applicable fees, brokerage, stamp duty, currency conversion costs, taxes and charges).	Section 3.3.5
What are the tax implications of the Scheme?	Implementation of the Scheme may trigger taxation consequences for Quantum Shareholders. A general guide to the Australian taxation implications of the Scheme is set out in Section 8. This guide is expressed in general terms only and Quantum Shareholders should seek professional taxation advice with respect to their individual tax situation.	Section 8
Will I have to pay any brokerage or stamp duty in relation to the Scheme?	You will not incur brokerage on the transfer of your Quantum Shares to Paragon pursuant to the Scheme. If you sell your Quantum Shares on ASX (rather than disposing of them via the Scheme), you may incur brokerage charges (and, potentially, GST on those charges). Brokerage fees may be deducted from the Sale Proceeds payable to Ineligible Foreign Shareholders – see Section 3.3.5.	Section 1.2.6, 3.3.5.

[19] The actual number of Paragon Shares received may be subject to the effect of rounding.
[20] This includes the new Paragon Shares that will be issued to the Sale Agent on behalf of Ineligible Foreign Shareholders. See Section 3.3.5.

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Question	Answer	More information
SCHEME MEETINGS, VOTING AND APPROVAL		
What is the Scheme Meeting?	The Scheme Meeting is a meeting of Quantum Shareholders to consider the Scheme. The terms of the Scheme Resolution to be considered at the Scheme Meeting are contained in the Notice of Meeting in Annexure 4 of this Scheme Booklet.	Section 3.2.1 and Annexure 4
Who is entitled to vote at the Scheme Meeting?	Quantum Shareholders who are recorded on the Register as the holder of Quantum Shares as at 7:00pm (Sydney time) on Tuesday, 25 January 2022 are entitled to attend and vote at the Scheme Meeting.	See the "How to vote" section commencing on page 9 and Section 3.2.1
When and where will the Scheme Meeting be held?	The Scheme Meeting has been convened for 3:00pm (Sydney time) on Thursday, 27 January 2022 to be held virtually.	The Notice of Scheme Meeting is set out in Annexure 4 to this Scheme Booklet
How do I vote?	You can vote at the Scheme Meeting: • before or during the virtual Scheme Meeting; • by proxy; • using a power of attorney; or • by a corporate representative.	See the "How to vote" section commencing on page 9
Should I vote?	Voting is not compulsory. However, the Quantum Directors unanimously recommend that Quantum Shareholders vote in favour of the Scheme in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders.[21] If the Scheme becomes Effective, you will be bound by the Scheme whether or not you voted and whether or not you voted in favour of the Scheme. Your vote is important.	See the "How to vote" section commencing on page 9
How do I vote if I am unable to attend a Scheme Meeting?	If you cannot attend a Scheme Meeting, you can vote before the Scheme Meeting, appoint a proxy electronically or complete and return the Proxy Form in accordance with the instructions set out on the Proxy Form and have your proxy attend the virtual Scheme Meeting and vote on your behalf.	See the "How to vote" section commencing on page 9
What is the approval threshold for the Scheme?	For the Scheme to proceed, the Scheme Resolution must be passed at the Scheme Meeting by the Requisite Majorities, being: • a majority in number (more than 50%) of Quantum Shareholders present and voting at the Scheme Meeting (whether in person (virtually), by proxy, by attorney or by a corporate representative); and • at least 75% of the total number of votes cast on the Scheme Resolution. The Court has the discretion to waive the first of these two requirements if it considers it appropriate to do so. Voting at the Scheme Meeting will be by poll. For the Scheme to become Effective, it must also be approved by the Court.	Section 3.2.1
When will the results of the Scheme Meetings be known?	The results of the Scheme Meeting will be available shortly after the conclusion of the Scheme Meeting and will be announced to the ASX once available. Even if the Scheme Resolution is passed by the Requisite Majorities at the Scheme Meeting, the Scheme will be subject to the approval of the Court.	

[21] When considering this recommendation, Quantum Shareholders should note that two of the Quantum Directors (being John Walstab, Managing Director and CEO and Drew Townsend, Non-Executive Director and Chair) are substantial shareholders of Quantum. They have also provided Related Party Loans to Quantum which are required to be repaid as a condition precedent to the Scheme. See Sections 1.2.3 and 9.1 for further information.

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Question	Answer	More information
OTHER QUESTIONS		
What happens if a Superior Proposal emerges?	If a Superior Proposal emerges, this will be announced to the ASX and the Quantum Directors will carefully consider the proposal and advise you of their recommendation.	
What if the Independent Expert changes its opinion?	The Independent Expert has concluded that the Scheme is in the best interests of Quantum Shareholders in the absence of a superior proposal. If the Independent Expert changes its opinion, this will be announced to the ASX and the Quantum Directors will carefully consider the Independent Expert's revised opinion and advise you of their recommendation.	A copy of the Independent Expert's Report is set out in Annexure 1 to this Scheme Booklet
Can I choose to keep my Quantum Shares?	No. If the Scheme is Implemented, any Quantum Shares you hold on the Scheme Record Date will be transferred to Paragon. This is so even if you did not vote at all or you voted against the Scheme Resolution at the Scheme Meeting.	Section 3
Can I sell my Quantum Shares now?	Quantum Shareholders can sell their Quantum Shares on the ASX at any time before the trading in Quantum Shares is suspended by ASX (see below). If you sell your Quantum Shares on the ASX prior to the Scheme Record Date: • you will not receive the Scheme Consideration; • you may be required to pay brokerage on the sale of your Quantum Shares; and • there may be different tax consequences for you compared with those consequences that would apply if you disposed of your Quantum Shares under the Scheme. The Effective Date is currently expected to be 2 February 2022.	Section 3
Can I oppose the Scheme at the Second Court Hearing?	Any Quantum Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Quantum a notice of appearance in the prescribed form together with any affidavit that the Quantum Shareholder proposes to rely on. The Second Court Hearing is expected to be held at 3:00pm (Sydney time) on Tuesday, 1 February 2022.	Section 3
When will Quantum Shares cease trading on ASX?	Quantum intends to apply to ASX for Quantum Shares to be suspended from trading with effect from the close of trading on ASX on the Effective Date (currently expected to be 2 February 2022). You will not be able to sell your Quantum Shares on-market from this time.	Section 3
Can the Scheme be terminated?	The Scheme Implementation Deed may be terminated in certain circumstances, details of which are summarised in Section 3.5.4. If the Scheme Implementation Deed is terminated, the Scheme will not proceed.	Section 3.5.4
OVERVIEW OF THE MERGED GROUP		
Who will be the directors of the Merged Group?	If the Scheme is Implemented, it is expected that the Board of the Merged Group will consist of the following: • Chair: Shane Tanner • Executive Director: John Walstab • Non-Executive Director: Alan McCarthy • Non-Executive Director: Mark Simari • Non-Executive Director: Geoffrey Sam OAM • Non-Executive Director: Brent Stewart Paragon has commenced a recruitment process for a managing director of the Merged Group, who, if appointed, is expected to also join the Paragon Board from their commencement.	Section 6.4

Question	Answer	More information
Who will be the substantial shareholders of the Merged Group following Implementation?	Upon Implementation of the Scheme, existing Paragon Shareholders will own approximately 56.17% of the Merged Group and existing Quantum Shareholders will own approximately 43.83% of the Merged Group.[22] Immediately following Implementation, the substantial holders of Paragon are expected to be John Walstab, who is expected to hold approximately 19.993% of Paragon Shares, and China Pioneer, who is expected to hold approximately 8.4% of Paragon Shares.	Section 6.3.2
FURTHER INFORMATION		
How can I get further information if I have any questions?	For further information, you can call the Quantum Shareholder Information Line on 1300 737 760 (within Australia) or +61 2 9290 9600 (outside Australia) on Business Days between 9:00am and 5:30pm (Sydney time). If you are in doubt about anything in this Scheme Booklet, please contact your financial, legal or other professional adviser.	

[22] This includes the new Paragon Shares that will be issued to the Sale Agent on behalf of Ineligible Foreign Shareholders. See Section 3.3.5.

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3 Overview of the Scheme

3.1 Summary

On 8 November 2021, Quantum announced that it had entered into a Scheme Implementation Deed with Paragon under which it is proposed that Paragon will acquire all Quantum Shares by way of a scheme of arrangement under Part 5.1 of the Corporations Act.

If the Scheme is Implemented:

(a) all Quantum Shares held by Scheme Shareholders on the Scheme Record Date will be transferred to Paragon;

(b) in return, Paragon will issue to the Scheme Shareholders (other than Ineligible Foreign Shareholders – see Section 3.3.5) 0.243 Paragon Shares for each Quantum Share they hold on the Scheme Record Date;[23]

(c) immediately following Implementation, Scheme Shareholders will hold in aggregate approximately 43.83% of the shares in Paragon;[24] and

(d) Quantum will become a wholly-owned Subsidiary of Paragon and, after Implementation, delisted from ASX.

Further information regarding the Scheme Consideration is set out in Section 3.3.

A copy of the Scheme is set out in full in Annexure 2 to this Scheme Booklet. Section 3.2 explains the steps involved in implementing the Scheme.

Implementation of the Scheme is subject to a number of conditions precedent being satisfied or (where applicable) waived. The conditions precedent are set out in Section 3.5.1 of this Scheme Booklet.

3.2 Steps in implementing the Scheme

3.2.1 Scheme Meeting

On 17 December 2021, the Court ordered that Quantum convene the Scheme Meeting at 3:00pm (Sydney time) on Thursday, 27 January 2022 to be held virtually, for the purpose of Quantum Shareholders considering and, if thought fit, approving the Scheme and that this Scheme Booklet be despatched to Quantum Shareholders.

All Quantum Shareholders on the Register at 7:00pm (Sydney time) on Tuesday, 25 January 2022 are entitled to vote at the Scheme Meeting.

For the Scheme to proceed, the Scheme Resolution must be passed at the Scheme Meeting by the Requisite Majorities, being:

(a) a majority in number (more than 50%) of Quantum Shareholders present and voting at the Scheme Meeting (whether in person (virtually), by proxy, by attorney or by a corporate representative); and

(b) at least 75% of the total number of votes cast on the Scheme Resolution.

The Court has the discretion to waive the first of these two requirements if it considers it appropriate to do so.

[23] The actual number of Paragon Shares received may be subject to the effect of rounding.
[24] This includes the new Paragon Shares that will be issued to the Sale Agent on behalf of Ineligible Foreign Shareholders. See Section 3.3.5.

The Notice of Scheme Meeting, which includes the Scheme Resolution, is set out in Annexure 4 to this Scheme Booklet.

The vote at the Scheme Meeting will be conducted by poll.

For further details on how to vote, please refer to page 9 of this Scheme Booklet.

3.2.2 Court order approving the Scheme

In order to become Effective, the Scheme must also be approved by the Court at the Second Court Hearing.

Quantum will apply to the Court for an order approving the Scheme, if the Scheme is approved by the Requisite Majorities of Quantum Shareholders voting at the Scheme Meeting and all other conditions to the Scheme (other than Court approval of the Scheme) have been satisfied or waived (as applicable).

Each Quantum Shareholder has the right to seek leave to appear at the Second Court Hearing and be heard in respect of the Scheme.

The Court may refuse to approve the Scheme or may approve the Scheme subject to conditions or variations, even if the Scheme is approved by the Requisite Majorities of Quantum Shareholders voting at the Scheme Meeting.

3.2.3 Implementation of the Scheme

The Scheme will be implemented on the Implementation Date, which is currently expected to be Wednesday, 16 February 2022. Upon the Implementation of the Scheme:

(a) Paragon will acquire all of the Quantum Shares held by Scheme Shareholders on the Scheme Record Date;

(b) Scheme Shareholders will receive the Scheme Consideration; and

(c) Quantum will become a wholly-owned Subsidiary of Paragon and delisted from the ASX.

3.2.4 Removal from official quotation

After the Scheme has been Implemented, Quantum will request the ASX to end official quotation of Quantum Shares and remove Quantum from the official list of the ASX.

3.3 Scheme Consideration

If the Scheme is Implemented, Scheme Shareholders (other than Ineligible Foreign Shareholders – see Section 3.3.5) will receive 0.243 Paragon Shares for each Quantum Share they own as at the Scheme Record Date.[25] Upon Implementation, Scheme Shareholders will hold approximately 43.83% of Paragon.[26]

All Paragon Shares issued to Scheme Shareholders as Scheme Consideration under the Scheme will rank equally in all respects with all existing Paragon Shares on issue as at the Implementation Date. The rights and liabilities attached to the Paragon Shares are described in Section 5.16.

Paragon will be under no obligation to issue any Paragon Shares to any Ineligible Foreign Shareholder and will instead issue the Paragon Shares that would otherwise have been issued to an Ineligible Foreign Shareholder to the Sale Agent, as described in Section 3.3.5.

[25] The actual number of Paragon Shares received may be subject to the effect of rounding.
[26] This includes the new Paragon Shares that will be issued to the Sale Agent on behalf of Ineligible Foreign Shareholders. See Section 3.3.5.

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3.3.1 *Basis for Scheme Consideration*

The Scheme Consideration ratio of 0.243 Paragon Shares for each Quantum Share was calculated based on the relative VWAPs of Quantum Shares and Paragon Shares.

Prior to entering into the Scheme Implementation Deed, Quantum periodically reviewed the relative price of Quantum and Paragon Shares to consider whether the proposed merger ratio was appropriate.[27]

3.3.2 *Establishing entitlements to Scheme Consideration*

For the purpose of establishing the persons who are entitled to participate in the Scheme, dealings in Quantum Shares will only be recognised if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as a holder of the relevant Quantum Shares by the Scheme Record Date; and

(b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the place where the Register is kept by 5:00pm (Sydney time) on the Scheme Record Date.

Quantum will not accept registration or recognise for any purpose any transmission application or transfer in respect of Quantum Shares received after such times, or received prior to those times but not in registrable form.

For the purposes of determining entitlements to Scheme Consideration, Quantum will, until the Scheme Consideration has been paid to Scheme Shareholders, maintain the Register in accordance with the terms of the Scheme, and the Register in this form will solely determine entitlements to the Scheme Consideration. As from the Scheme Record Date (other than for Paragon after the Implementation Date), each entry current at that time in the Register in relation to the Scheme Shares will cease to be of any effect other than as evidence of entitlement of Scheme Shareholders to the Scheme Consideration in accordance with the Scheme in respect of the Scheme Shares.

3.3.3 *Entitlement to Scheme Consideration*

The Scheme Record Date is currently anticipated to be 7:00pm (Sydney time) on Wednesday, 9 February 2022. Only Quantum Shareholders whose names appear on the Register on the Scheme Record Date will be entitled to receive the Scheme Consideration.

The way in which each individual Quantum Shareholder receives the Scheme Consideration will depend on whether that shareholder is an:

(a) Eligible Shareholder; or

(b) Ineligible Foreign Shareholder.

3.3.4 *Eligible Shareholders*

Quantum Shareholders who are recorded in the Register on the Scheme Record Date and are not Ineligible Foreign Shareholders are eligible to receive the Scheme Consideration in the form of 0.243 Paragon Shares for each Quantum Share they own.

Paragon will issue Paragon Shares to Eligible Shareholders on or before the Implementation Date. Paragon will send, or will procure the sending of, a holding statement to Eligible

[27] In reaching its conclusion the Independent Expert assessed the value of the Scheme Consideration (see section 9.4 of the Independent Expert's Report).

Shareholders at their Registered Address within five Business Days of the Implementation Date.

Joint holders

In the case of any Scheme Shares held in joint names, the Paragon Shares to be issued by Paragon will be issued to and registered in the Paragon Register in the names of the joint holders. Any document required to be sent under the Scheme to the joint holders will be sent to the holder whose name appears first in the Register as at the Scheme Record Date.

Fractional entitlements

Where the calculation of the Scheme Consideration to which an Eligible Shareholder is entitled to under the Scheme would result in that shareholder being entitled to a fraction of a Paragon Share, the fractional entitlement will be rounded down to the nearest whole number of Paragon Shares.

3.3.5 Ineligible Foreign Shareholders

A Scheme Shareholder will be an Ineligible Foreign Shareholder where their address shown in the Register as at the Scheme Record Date is a place outside Australia and its external territories, New Zealand, Thailand or South Korea unless Quantum and Paragon jointly determine that it is lawful and not unduly onerous or impracticable to issue that foreign Quantum Shareholder Paragon Shares.

Paragon will be under no obligation to issue any Paragon Shares to any Ineligible Foreign Shareholder and will instead issue the Paragon Shares that would otherwise have been issued to an Ineligible Foreign Shareholder to a Sale Agent.

Ineligible Foreign Shareholders will still participate in the Scheme. However, Paragon Shares will not be issued to Ineligible Foreign Shareholders. Instead, the Paragon Shares to which the Ineligible Foreign Shareholders would otherwise have been entitled to will be issued directly to the Sale Agent who will then, as soon as reasonably practicable on or after the Implementation Date, sell those Paragon Shares on the ASX. The Sale Agent will, within 30 Business Days after the Implementation Date, remit the Sale Proceeds for the Paragon Shares to Quantum (after deduction of any reasonable and applicable fees, brokerage, stamp duty, currency conversion costs, taxes and charges). Quantum will then remit to each Ineligible Foreign Shareholder the Sale Proceeds attributable to the Paragon Shares to which the Ineligible Foreign Shareholder would otherwise have been entitled (after deducting any reasonable and applicable fees, brokerage, stamp duty, currency conversion costs, taxes and charges).

The Sale Proceeds will be paid to each Ineligible Foreign Shareholder by:

(a) direct credit to the nominated bank account of the Ineligible Foreign Shareholder as noted on the Register on the Scheme Record Date; or

(b) where an account has not been provided, Sale Proceeds will be remitted by dispatching a cheque by mail to the Ineligible Foreign Shareholder's Registered Address as at the Scheme Record Date.

Sale Proceeds will be paid to Ineligible Foreign Shareholders in Australian dollars.

Under the Scheme, each Ineligible Foreign Shareholder is taken to appoint Quantum as its agent to receive on its behalf any financial services guide (or similar or equivalent document) or other notices (including any updates to those document) that the Sale Agent is required to issue to that Ineligible Foreign Shareholder under the Corporations Act or any other applicable law.

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3.4 Consequences if the Scheme does not proceed

If the Scheme is not Implemented:

(a) Quantum Shareholders will continue to hold Quantum Shares and will be exposed to general risks as well as risks specific to Quantum, including those set out in Section 7 of this Scheme Booklet;

(b) Quantum Shareholders will not receive the Scheme Consideration; and

(c) depending on the reasons why the Scheme does not proceed, Quantum or Paragon may be liable to pay the Break Fee. Information on the Break Fee and the circumstances where the Break Fee may become payable is set out in Section 3.5.3.

If the Scheme is not Implemented, and in the absence of a Superior Proposal, Quantum will continue as an ASX listed entity with management continuing to implement its current business plan and financial and operating strategies.

If the Scheme is not Implemented, the advantages of the Scheme described in Section 1.2 of this Scheme Booklet will not be realised and the potential disadvantages and risks of the Scheme described in Section 1 and Section 7 of this Scheme Booklet will not arise.

3.5 Scheme Implementation Deed

Quantum and Paragon have entered into the Scheme Implementation Deed, as announced by Quantum to the ASX on 8 November 2021. A full copy of the Scheme Implementation Deed was attached to that announcement and is available free of charge from the ASX's website at www2.asx.com.au and Quantum's website at https://qhealthcare.com.au/cg/.

The Scheme Implementation Deed sets out the rights and obligations of Quantum and Paragon in connection with the Scheme. The key terms of the Scheme Implementation Deed are summarised below.

3.5.1 Conditions precedent to Implementation

The Scheme will not proceed unless all of the conditions precedent set out in the Scheme Implementation Deed are satisfied or waived (where capable of being waived). In summary, those conditions which have not already been satisfied are:

(a) (**Quantum Shareholder approval**) the Quantum Shareholders approve the Scheme by the Requisite Majorities at the Scheme Meeting;

(b) (**Court approval**) the Court approves the Scheme in accordance with the Corporations Act;

(c) (**No Quantum Material Adverse Change**) no Quantum Material Adverse Change occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date;

(d) (**No Quantum Prescribed Event**) no Quantum Prescribed Event occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date. However, Quantum and Paragon have agreed that Paragon may declare a dividend prior to Implementation provided that Quantum may also declare a proportionate dividend at the same time and that neither dividend declarations will be a Quantum Prescribed Event or a Paragon Prescribed Event;[28]

[28] See also Section 9.3.

(e) (**Quantum warranties**) the representations and warranties of Quantum in the Scheme Implementation Deed are true and correct in all material respects (taken in the context of the Scheme as a whole) as at the dates at which they are expressed to be given;

(f) (**Related Party Loans**) any and all Related Party Loans are fully repaid before 5:00pm on the Business Day prior to the Second Court Date;

(g) (**Escrow Deed**) the Escrow Deed is validly executed on or before 5:00pm on the Business Day before the Second Court Date in respect of any Consideration Shares to be issued to John Walstab or any of his Associates;

(h) (**No material litigation against Quantum**) no legal proceedings, claim, investigation, arbitration or other like proceeding is instituted or made against any member of the Quantum Group that would result, or would reasonably likely result, in payment by a member of the Quantum Group of an amount exceeding $1.5 million;

(i) (**No Paragon Material Adverse Change**) no Paragon Material Adverse Change occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date;

(j) (**No Paragon Prescribed Event**) no Paragon Prescribed Event occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date. However, Quantum and Paragon have agreed that Paragon may declare a dividend prior to Implementation provided that Quantum may also declare a proportionate dividend at the same time and that neither dividend declarations will be a Quantum Prescribed Event or a Paragon Prescribed Event;[29]

(k) (**Paragon warranties**) the representations and warranties of Paragon in the Scheme Implementation Deed are true and correct in all material respects (taken in the context of the Scheme as a whole) as at the dates at which they are expressed to be given;

(l) (**No material litigation against Paragon**) no legal proceedings, claim, investigation, arbitration or other like proceeding is instituted or made against any member of the Paragon Group that would result, or would reasonably likely result, in payment by a member of the Paragon Group of an amount exceeding $4 million;

(m) (**ASIC and ASX**) before 5:00pm on the Business Day before the Second Court Date, ASIC and ASX issue or provide all relief, waivers, confirmations, exemptions, consents or approvals, and do all other acts, necessary or desirable to implement the Scheme and such relief, waivers, confirmations, exemptions, consents, approvals or other acts remain in full force and effect in all respects and have not been withdrawn, revoked, suspended, restricted or amended (or become subject to any notice, intimation or indication of intention to do any such thing) before 8:00am on the Second Court Date; and

(n) (**No restraints**) no temporary restraining order, preliminary or permanent injunction or other order is issued by any court of competent jurisdiction, no action or investigation is announced, commenced or threatened by any Governmental Agency or other legal restraint or prohibition preventing any aspect of the Scheme unless such order, injunction decision, decree, action, investigation or application

[29] See also Section 9.3.

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has been disposed of to the satisfaction of Paragon or is otherwise not in effect or enforceable as at 8:00am on the Second Court Date.

In addition, the condition precedent requiring the Key Executives to enter into new employment agreements with a Quantum Group or Paragon Group member before 5:00pm on the Business Day before the Second Court Date in a form approved by Paragon has been waived by Paragon.

Full details of the conditions and the ability of Quantum and Paragon to rely on them, as well as the provisions relating to the satisfaction or waiver of these conditions, are set out in clause 2 of the Scheme Implementation Deed.

As at the date of this Scheme Booklet, Quantum is not aware of any reason why the conditions will not be satisfied or waived.

3.5.2 Exclusivity arrangements

The Scheme Implementation Deed contains certain exclusivity arrangements in favour of both parties. These arrangements are in line with market practice. In summary, they are:

(a) (**no shop**) during the Exclusivity Period, Quantum and Paragon must not (and must ensure that each of its Representatives does not) directly or indirectly solicit or invite, or initiate any enquiries, negotiations or discussions, or communicate any intention to do any of these things, with a view to obtaining any offer, expression of interest or proposal from any person in relation to a Competing Proposal;

(b) (**no talk**) subject to the terms of the Scheme Implementation Deed, during the Exclusivity Period Quantum and Paragon must not (and must ensure that each of its Representatives does not) enter into, continue or participate in negotiations or discussions with any other person regarding or in connection with a Competing Proposal or potential Competing Proposal;

(c) (**no due diligence**) without limiting certain clauses of the Scheme Implementation Deed, during the Exclusivity Period, Quantum and Paragon must not (and must ensure that each of its Representatives do not) solicit, initiate, facilitate or encourage any person (other than the other party or its Representatives) to undertake due diligence on Quantum Group or its Related Bodies Corporate) or make available to any person (other than the other party or its Representatives) or permit such person to receive any non-public information relating to the party or its Related Bodies Corporate in connection with a Competing Proposal (or potential Competing Proposal);

(d) (**notification obligation**) during the Exclusivity Period, Quantum and Paragon must as soon as reasonably practicable, and in any event within 48 hours, notify the other in writing if it or any of its Representatives becomes aware of any:

    (i) receipt of any Competing Proposal in respect of itself;

    (ii) approach, enquiry or request to initiate any negotiations or discussions in respect of, or that may reasonably be expected to lead to, any genuine bona fide Competing Proposal; or

    (iii) provision by the party or any of its Representatives, to any Third Party, of any material non-public information relating to any member of the Paragon Group or the Quantum Group (as applicable) in relation to any Competing Proposal,

    whether direct, indirect, solicited or unsolicited, and in writing or otherwise.

(e) (**Paragon matching right**) in summary, among other things, Quantum and each member of the Quantum Group:

(i) must not enter into any legally binding agreement, arrangement or understanding (whether or not in writing) to give effect to an actual, proposed or potential Competing Proposal; and

(ii) must use its best endeavours to ensure that no Quantum Director adversely changes or withdraws their statements in relation to the Scheme or makes a recommendation or statement that is inconsistent with that recommendation unless, among other things:

(A) the Quantum Board acting in good faith and in order to satisfy what the Quantum Board consider to be their statutory or fiduciary duties determine that the actual, proposed or potential Competing Proposal is, would be or would be reasonably likely to be, a Superior Proposal;

(B) Quantum has provided Paragon with the material details of the actual, proposed or potential Competing Proposal; and

(C) Quantum has given Paragon five Business Days to provide a matching or superior counterproposal to the terms of the actual, proposed or potential Competing Proposal (**Paragon Counterproposal**); and

(D) Paragon has not provided to Quantum a matching or Superior Proposal to the terms of the actual, proposed or potential Competing Proposal.

(iii) if Paragon submits a Paragon Counterproposal within five Business Days, Quantum must use reasonable endeavours to procure that the Quantum Directors consider the Paragon Counterproposal. If the Quantum Board determines that the Paragon Counterproposal would provide an equivalent or superior outcome for the Quantum Shareholders, then:

(A) Quantum and Paragon must use their best endeavours to agree the amendments to the Scheme Implementation Deed, the Scheme and the Deed Poll (as applicable) that are reasonably necessary to reflect the Paragon Counterproposal and to implement the Paragon Counterproposal; and

(B) Quantum must use its best endeavours to procure that each Quantum Director continues to recommend the Scheme (as modified by the Paragon Counterproposal) to Quantum Shareholders.

However, Quantum and Paragon are not required to comply with the 'no talk' and 'no due diligence' provisions in the Scheme Implementation Deed in relation to a bona fide Competing Proposal from a third party if its board of directors has determined in good faith that such Competing Proposal is or may reasonably be expected to become a Superior Proposal and, after receiving written legal advice from its external legal advisers, that compliance with those provisions would involve, or would be likely to involve, a breach of the directors' fiduciary or statutory duties.

These provisions are set out in full in clause 9 of the Scheme Implementation Deed.

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3.5.3 Break Fee

Quantum and Paragon have agreed to pay a mutual Break Fee of $1 million (excluding GST) to each other, in certain circumstances.

In summary, the Break Fee is payable if by Quantum to Paragon if:

(a) (**change in recommendation**) any Quantum Director withdraws, adversely modifies or adversely qualifies their support for the Scheme, or fails to recommend that Quantum Shareholders vote in favour of the Scheme, or makes any public statement, or takes any other action that is inconsistent with his or her recommendation that Quantum Shareholders vote in favour of the Scheme (including that they no longer support the Scheme or they support, endorse or recommend a Competing Proposal) other than:

(i) as a result of the Independent Expert concluding that the Scheme is not in the best interests of Quantum Shareholders (other than where the reason for that conclusion is a Competing Proposal);

(ii) as a result of a change or withdrawal of the recommendation consistent with certain clauses of the Scheme Implementation Deed;

(iii) as a result of a Court ordering a Quantum Director or its associates not to vote; or

(iv) after the Scheme Implementation Deed is terminated as a result of a failure of a condition which is solely for the benefit of Quantum – being, clauses 2.1(f) (No Bidder Prescribed Events), 2.1(g) (No Bidder Material Adverse Change), 2.1(h) (Bidder Warranties) or 2.1(i) (No material litigation);

(b) (**Competing Proposal**) a Competing Proposal in respect of the Quantum Group is announced and, within 12 months of that announcement, the person announcing the Competing Proposal (or its Associate) completes in all material respects a Competing Proposal (other than a transaction described in paragraph (a)(ii) of the definition of “Competing Proposal”);

(c) (**material breach**) Paragon validly terminates the Scheme Implementation Deed due to a material breach of it by Quantum (including any material breach of a warranty given by Quantum); or

(d) (**Superior Proposal in respect of the Quantum Group**) Quantum or Paragon validly terminates the Scheme Implementation Deed by reason of the Quantum Board determining that a Competing Proposal in respect of the Quantum Group (which did not arise from a breach of the exclusivity arrangements in clause 9 – see Section 3.5.2 above) is a Superior Proposal and, in the case of termination by Quantum, Quantum has first paid the Break Fee to Paragon in accordance with the terms of the Scheme Implementation Deed.

In summary, the Break Fee is payable by Paragon to Quantum if:

(e) (**Lack of support**) a Competing Proposal in respect of the Paragon Group is received or announced and any director of Paragon makes a public statement that they no longer support the Scheme and recommend such Competing Proposal;

(f) (**material breach**) Quantum validly terminates the Scheme Implementation Deed due to a material breach of it by Paragon (including any material breach of a warranty given by Paragon); or

(g) (**Competing Proposal in respect of the Paragon Group**) Quantum or Paragon validly terminates the Scheme Implementation Deed due to a Competing Proposal

in respect of the Paragon Group being received or announced and the Paragon Board makes a public statement that they no longer support the Scheme and that they recommend such Competing Proposal and, in the case of termination by Paragon, Paragon has first paid the Break Fee to Quantum in accordance with the terms of the Scheme Implementation Deed.

These provisions are set out in full in clause 10 of the Scheme Implementation Deed.

3.5.4 Termination of the Scheme Implementation Deed

The parties may terminate the Scheme Implementation Deed in certain circumstances. In summary, they are:

(a) either party may terminate if:

(i) (**material breach**) the other party is in material breach of the Scheme Implementation Deed, and that breach is not remedied within the period required by the Scheme Implementation Deed;

(ii) (**Superior Proposal in respect of the Quantum Group**) the Quantum Board determines that a Competing Proposal in respect of the Quantum Group (which did not arise from a breach of the exclusivity arrangements described in Section 3.5.2) is a Superior Proposal; or

(iii) (**Competing Proposal in respect of the Paragon Group**) a Competing Proposal in respect of the Paragon Group is received or announced and the Paragon Board makes a public statement that they no longer support the Scheme and that they recommend such Competing Proposal.

(iv) (**condition precedent**) a condition precedent described in Section 3.5.1 is not satisfied or waived in accordance with the terms of the Scheme Implementation Deed; or

(v) (**End Date**) the Scheme has not become, or will not become, Effective on or before the End Date;

(b) Quantum may terminate if:

(i) (**Paragon Material Adverse Change or Paragon Prescribed Event**) there is a Paragon Material Adverse Change or a Paragon Prescribed Event; and

(c) Paragon may terminate if:

(i) (**lack of support**) any Quantum Director adversely changes, or withdraws, their recommendation or statement of voting intention in relation to the Scheme, otherwise makes a public statement indicating that they no longer support the Scheme, or undertakes any action that is otherwise inconsistent with their recommendation or statement of voting intention; or

(ii) (**Quantum Material Adverse Change or Quantum Prescribed Event**) there is a Quantum Material Adverse Change or a Quantum Prescribed Event.

The Scheme Implementation Deed will also terminate automatically if, at the Scheme Meeting, the Quantum Shareholders do not approve the Scheme by the Requisite Majorities and (if applicable) Quantum does not seek (or Paragon does not require Quantum to seek) the approval of the Court to dispense with the Headcount Test.

These provisions are set out in full in clause 11 of the Scheme Implementation Deed.

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In addition, the Scheme will lapse if it does not become Effective by the End Date (and Quantum and Paragon do not agree otherwise).

3.6 Warranty by Scheme Shareholders

If the Scheme is Implemented, each Scheme Shareholder will be deemed to have warranted to Quantum and Paragon, and to have appointed and authorised Quantum as its attorney and agent to warrant to Paragon, on the Implementation Date that:

(a) all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, at the date of transfer of them to Paragon pursuant to the Scheme, be fully paid and free from all Encumbrances , third party interests (whether legal or equitable) or restrictions on transfer of any kind;

(b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) to Paragon under the Scheme; and

(c) they have no existing right to be issued any Quantum Shares or other securities in Quantum.

3.7 Deed Poll

On 15 December 2021, Paragon executed the Deed Poll pursuant to which Paragon undertook in favour of each Scheme Shareholder, subject to the Scheme becoming Effective, to:

(a) provide, or procure the provision of, the Scheme Consideration to the Scheme Shareholders in accordance with clause 5 of the Scheme; and

(b) undertake all other actions, and give acknowledgement, representation and warranty (if any), attributed to Paragon under the Scheme,

subject to and in accordance with the provisions of the Scheme.

A copy of the Deed Poll is included in Annexure 3 to this Scheme Booklet.

Details regarding the Scheme Consideration are set out in Section 3.3.

3.8 Escrow arrangements

Managing Director and majority shareholder of Quantum, Mr John Walstab, remains committed to the long-term value creation opportunities available to the Merged Group.

Therefore, in accordance with the Scheme Implementation Deed, the Escrow Deed (in respect of any Consideration Shares to be issued to Mr John Walstab or any of his Associates) is required to be entered into before 5:00pm on the Business Day before the Second Court Hearing, which contains the following restrictions on dealing and disposing of Consideration Shares issued at Implementation: (subject to certain exceptions):

(a) 50% of the relevant Consideration Shares, for a period of 12 months; and

(b) 50% of the relevant Consideration Shares, for a period of 24 months.

A copy of the Escrow Deed is annexed to the Scheme Implementation Deed.

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4 Information about Quantum

The information set out in this Section 4 was prepared by Quantum and Quantum is responsible for the information contained in this Section 4.

4.1 Overview of Quantum

4.1.1 Corporate history

Quantum was incorporated in 1975 as Wilworth Limited and was listed on ASX in 1993.

In 2002, Quantum (which was then known as Wellworth China Investments Limited) acquired all the shares in Quantum Energy Pty Limited, and the new merged entity was called Quantum Energy Limited and operated in the heat technology area.

In the period between 2006 and 2015, Quantum made a number of acquisitions, including:

(a) Insight Oceania Pty Ltd (2006);

(b) Oncology Imaging Systems Korea Co. Ltd (2014);

(c) Quantum Healthcare Thailand Co. Ltd (2014); and

(d) a majority stake in D&D Hunex Co. Ltd (2015) (now Quantum Hunex Korea Co. Ltd).

In 2017, Quantum shifted its focus from the renewable energy technology space to the distribution of high-end medical equipment.

After acquiring the remaining interest in Quantum Healthcare Pty Ltd in 2018, Quantum changed its name to Quantum Health Group Limited (as it continues to be known).

In recent years, it has also acquired the Carestream Health businesses in both Australia and New Zealand (2019) and also Carestream Health Philippines, Inc. (2020).

4.1.2 Business overview

Quantum is an independent healthcare company operating throughout the Asia Pacific region. Quantum specialises in the distribution of state-of-the-art medical imaging, patient treatment equipment and services in radiology, oncology and women's healthcare markets. Its key market segments are:

(a) ultrasound systems;

(b) digital radiography equipment;

(c) oncology equipment;

(d) aesthetics products; and

(e) environmental energy and healthcare products.

Quantum's head office is in Sydney, Australia and has operations in Australia, Thailand, South Korea, Philippines, New Zealand, China and Vietnam.

Quantum is the authorised distribution partner for a number of leading global healthcare manufacturers including Carestream, Philips Healthcare, Samsung, IBA, Classys and Accuray. Quantum has also created a healthcare technology platform which is utilised across the Asia Pacific region that enables Quantum to provide first class customer service and clinical support to a large number of hospitals, university hospitals, and private clinics.

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4.2 Operating model and revenue breakdown

As noted above, Quantum has distribution rights for a number of global healthcare equipment manufacturers in the Asia Pacific Region. Quantum revenue is derived from the sales of this equipment as well as the fees payable by customers in relation to the maintenance and service of the equipment.

In the financial year ended 30 June 2021, Quantum's revenue can be broken down as follows:

(a) sales of medical equipment accounted for 52%;

(b) servicing installed medical equipment accounted for 41%; and

(c) sales of environment health and renewable energy products accounted for 7%.

4.3 Business strategy and initiatives

In 2017, Quantum made a strategic decision to focus its business on medical equipment service in niche markets. This approach has generated recurring revenues, because after the initial sale of the medical equipment, there is a continued demand by Quantum's customers for the maintenance and service of the equipment.

Quantum's entry into the Asia-Pacific medical equipment distribution market over eight years ago means that it can take advantage of a number of benefits, including:

(a) (**Manufacturer and supplier reliance**) A number of global manufacturers are placing greater reliance on distributors, such as Quantum, to assist with the following in each particular country into which they are supplying their products: legal and regulatory compliance, overcoming language barriers, marketing their products, facilitating sales and understanding the different cultural and business etiquettes.

(b) (**Competition**) Quantum has acquired a number of businesses in the Asia-Pacific region, and has been able to successfully integrate the businesses with its existing operations. This has resulted in Quantum obtaining experience that other Australian businesses do not have.

4.4 Quantum Board and senior management

4.4.1 Directors

As at the date of this Scheme Booklet, the current directors of Quantum are:

(a) Drew Townsend – Chair and Non-Executive Director;

(b) John Walstab – Managing Director and Chief Executive Officer;

(c) Alan McCarthy – Independent Non-Executive Director; and

(d) Stephanie Wen – Non-Executive Director.

Details of the Quantum Directors, including their experience, is set out in Quantum's 2021 Annual Report.

4.4.2 Senior management

As at the date of this Scheme Booklet, key members of the senior management team of Quantum include:

(a) John Walstab – Managing Director and Group Chief Executive Officer;

(b) Youngchun Kim – Chief Executive Officer of Quantum Healthcare Pty Ltd (a Subsidiary of Quantum);

(c) Michael Peters – Chief Financial Officer;

(d) Tiffany Chiew – General Manager of Quantum Healthcare Australia Pty Ltd (a Subsidiary of Quantum);

(e) Seok Sangyup – President of Quantum Healthcare Thailand Co. Ltd (a Subsidiary of Quantum); and

(f) Dong-Sun Im – President of Quantum Hunex Korea Co. Ltd (a Subsidiary of Quantum).

4.5 Historical financial information

4.5.1 Overview

This Section 4.5 sets out summary historical financial information in relation to Quantum. The summary historical financial information has been extracted from Quantum's audited financial statements for the 12-month financial years ended 30 June 2021, 30 June 2020 and 30 June 2019.

The financial information contained in this Section has been presented in an abbreviated form and does not contain all of the disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

Copies of the financial statements and company announcements from which the following historical financial information has been extracted can be found on Quantum's website. In particular, Quantum's most recent audited financial accounts for the financial year ended 30 June 2021 are contained in the Quantum's 2021 Annual Report which was released on the ASX Markets Announcements Platform on 28 September 2021 and is available from ASX's website at www2.asx.com.au or from Quantum's website at https://qhealthcare.com.au/cg/.

Quantum Shareholders may also contact Quantum for electronic or printed copies of published audited financial statements free of charge by telephoning the Quantum Shareholder Information Line on 1300 737 760 (within Australia) or + 61 2 9290 9600 (outside Australia) on Business Days between 9:00am and 5:30pm (Sydney time).

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4.5.2 *Quantum Historical Income Statements*

CONSOLIDATED HISTORICAL STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS END 30 JUNE 2021, 30 JUNE 2020 AND 30 JUNE 2019

	2021 $'000	2020 $'000	2019 $'000
Continuing operations			
Revenue from contracts with customers	55,113	58,309	57,955
Other revenue	558	1,089	1,474
Fair value gain on financial assets	99	67	(22)
Cost of sales	(26,653)	(31,032)	(34, 990)
Employee benefits expense	(11,421)	(11,337)	(11,171)
Depreciation and amortisation expense	(1,541)	(1,553)	(628)
Advertising and promotion expenses	(485)	(847)	(704)
Finance costs	(701)	(757)	(1092)
Legal fees	(121)	(138)	(75)
Research and development expenditure	(83)	(77)	(145)
Travel expenses	(639)	(1,052)	(1,034)
Motor vehicle expenses	(584)	(645)	(395)
Warranty expenses	(764)	(559)	(487)
Telephones and internet	(276)	(230)	(103)
Consultants	(805)	(645)	(725)
Freight and delivery expenses	(673)	(327)	(144)
Occupancy expenses	(147)	(221)	(912)
Insurance	(295)	(302)	(292)
Foreign exchange gain / (loss)	340	(222)	45
Other expenses	(2,348)	(2,286)	(3,945)
Profit from continuing operations before income tax	**8,574**	**7,235**	**2,610**
Income tax expense	(864)	(816)	197
Net profit after tax	**7,710**	**6,419**	**2,807**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Translation of foreign subsidiaries (loss) / gain	(1,403)	259	719
Items that will not be reclassified to profit or loss:			-
Actuarial gain on post-employment benefit obligations	40	155	29
Total comprehensive income for the year	**6,347**	**6,833**	**3,555**
Profit for the year is attributable to:			
Non-controlling interests	889	973	902
Owners of Quantum Health Group Limited	6,821	5,446	1,905
	7,710	**6,419**	**2,807**
Total comprehensive income for the year is attributable to:			
Non-controlling interests	287	1,028	1,329
Owners of Quantum Health Group Limited	6,060	5,805	2,226
	6,347	**6,833**	**3,555**

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4.5.3 *Quantum Historical Statements of Financial Position*

CONSOLIDATED HISTORICAL STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2021, 30 JUNE 2020 AND 30 JUNE 2019

	Consolidated Group		
	30 Jun 2021	**30 Jun 2020**	**30 Jun 2019**
	$'000	**$'000**	**$'000**
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11,945	8,765	4,327
Trade and other receivables	14,842	14,963	10,646
Inventories	8,147	9,464	9,147
Financial assets	1,176	1,043	661
Other assets	4,499	3,870	3,708
TOTAL CURRENT ASSETS	**40,609**	**38,105**	**28,489**
NON-CURRENT ASSETS			
Property, plant and equipment	1,137	1,700	1,570
Right-of-use-assets	668	1,414	-
Investment property	2,338	2,444	2,444
Deferred tax assets	3,078	3,137	3,212
Goodwill and intangible assets	22,591	22,719	19,983
Financial assets	2,283	2,628	5,093
Other assets	1,657	1,906	570
Defined benefit plans	44	-	-
TOTAL NON-CURRENT ASSETS	**33,796**	**35,948**	32,872
TOTAL ASSETS	**74,405**	**74,053**	61,361
CURRENT LIABILITIES			
Trade and other payables	11,102	11,401	7,734
Contract liabilities	3,918	6,840	3,054
Borrowings	7,277	8,888	12,412
Lease liabilities	499	929	-
Current tax liabilities	839	443	403
Short term provisions	2,597	2,249	1,704
TOTAL CURRENT LIABILITIES	**26,232**	**30,750**	25,307
NON-CURRENT LIABILITIES			
Trade and other payables	484	880	-
Contract liabilities	121	237	178
Borrowings	74	4	641
Lease liabilities	106	476	-
Employee benefits	113	443	185
Defined benefit plans	-	335	956
TOTAL NON-CURRENT LIABILITIES	**898**	**2,375**	1,960
TOTAL LIABILITIES	**27,130**	**33,125**	**27,267**
NET ASSETS	**47,275**	**40,928**	34,094
EQUITY			
Issued Capital	17,452	86,429	86,429
Reserves	1,507	2,268	1,908
Retained earnings / (accumulated losses)	22,958	(52,840)	(58,286)
Equity attributable to owners of Quantum Health Group Limited	**41,917**	**35,857**	**30,051**
Non-controlling interests	5,358	5,071	4,043
TOTAL EQUITY	**47,275**	**40,928**	**34,094**

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4.5.4 *Quantum Historical Statements of Cash Flows*

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2021, 30 JUNE 2020 AND 30 JUNE 2019

	2021 $ 000	2020 $ 000	2019 $ 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	65,098	62,189	61,536
Payments to suppliers and employees	(57,457)	(52,580)	(58,591)
Interest received	72	94	12
Finance costs	(287)	(255)	(427)
Income tax paid	(402)	(321)	(1,293)
Net cash provided by operating activities	7,024	9,127	1,237
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment	19	209	-
Purchase of property, plant and equipment	(174)	(879)	(489)
Dividends received from unrelated entity	-	-	14
Payments for acquisition of investment	-	(1,670)	(1,603)
Payments for financial assets	(687)	(1,324)	(978)
(Payment) / proceeds from (purchase) / sale of financial assets	(615)	947	1,902
Net cash used in investing activities	(1,457)	(2,717)	(1,154)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities	(835)	(784)	-
Repayment of borrowings	(1,552)	(1,188)	(1,180)
Net cash used in financing activities	(2,387)	(1,972)	(1,180)
Net increase in cash held	3,180	4,438	(1,097)
Cash at beginning of period	8,765	4,327	5,424
Cash at end of period	11,945	8,765	4,327

4.6 Material changes in financial position since 30 June 2021

To the knowledge of the Quantum Directors, other than expenditure in the ordinary course of business and as otherwise disclosed in this Scheme Booklet, the financial position of Quantum has not changed materially since 30 June 2021, being the date of the last balance sheet prepared in accordance with the Corporations Act before this Scheme Booklet was sent to Quantum Shareholders.

4.7 Quantum's issued securities

4.7.1 *Quantum's recent share price history*

As at 5 November 2021 (being the last trading day prior to the announcement of the execution of the Scheme Implementation Deed), the closing price of Quantum Shares on the ASX was $0.075.

The closing price of Quantum Shares on the ASX on 14 December 2021 being the Last Practicable Date was $0.075.

During the last ninety trading days ending on the Last Practicable Date:

(a) the highest recorded daily closing price for Quantum Shares on the ASX was $0.077 on 30 September 2021; and

(b) the lowest recorded daily closing price for Quantum Shares on the ASX was $0.059 on 16 August 2021.

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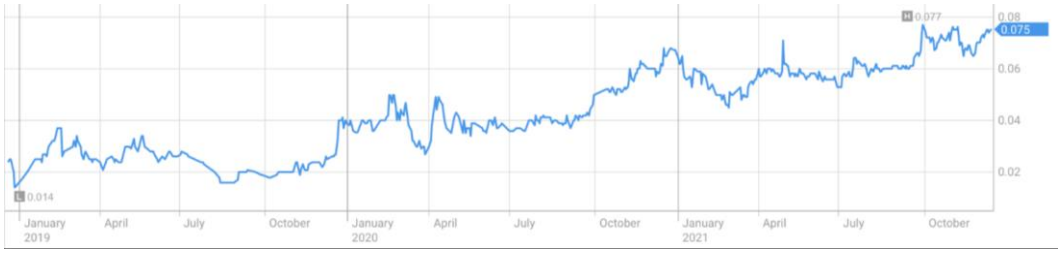
The chart below shows the Quantum's share price performance over the three years to the Last Practicable Date.



4.7.2 *Quantum Shares as at the date of this Scheme Booklet*

As at the date of this Scheme Booklet, Quantum had 1,128,308,291 Quantum Shares on issue and no other securities on issue.

4.7.3 *Top 20 Quantum Shareholders*

As at the Last Practicable Date, the top 20 Quantum Shareholders on the Register held approximately 80.17% of all issued Quantum Shares.

4.7.4 *Substantial Quantum Shareholders*

As at the Last Practicable Date, the substantial holders (within the meaning of the Corporations Act) of Quantum Shares were as follows:

Name	Number of Quantum Shares	Percentage of Quantum Shares
John Walstab	**514,712,393**	**45.62%**
Drew Townsend	**130,644,197**	**11.581%**

John Walstab and Drew Townsend are directors of Quantum. For further details as to how these interests are held, see Section 9.1.1.

4.7.5 *Publicly available information*

Quantum is a disclosing entity for the purpose of the Corporations Act, and as such is subject to regular reporting and disclosure obligations. Specifically, as an ASX listed company, Quantum is subject to the ASX Listing Rules which require it (subject to certain exceptions) to notify the ASX immediately of any information of which it becomes aware concerning Quantum that a reasonable person would expect to have a material effect on the price or value of its shares.

The disclosures made by Quantum to the ASX, including annual and half-yearly financial reports, are available free of charge from the ASX's website at www2.asx.com.au. Further announcements concerning material developments in relation to Quantum will continue to be available on that website after the date of this Scheme Booklet.

In addition, Quantum is required to lodge annual and half yearly financial reports with ASIC. Copies of these and other documents lodged with ASIC by Quantum may be obtained from ASIC.

Quantum Shareholders may obtain a copy of Quantum's 2021 Annual Report (including its audited financial statements in respect of the year ended 30 June 2021) from ASX's website at www2.asx.com.au or from Quantum's website at https://qhealthcare.com.au/cg/.

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Quantum's announcements to ASX after the lodgement its 2021 Annual Report with ASX on 28 September 2021 to the Last Practicable Date are listed in the table below:

Date	Announcement
9/12/2021	Release of Escrowed Shares
29/11/2021	Results of Meeting
8/11/2021	Quantum and Paragon Care Investor Presentation
8/11/2021	Quantum and Paragon Care Merger Proposal
1/11/2021	Notice of Meeting for 2021 AGM
1/11/2021	Notice of Annual General Meeting/Proxy Form
1/11/2021	JobKeeper Payments notification
5/10/2021	Notice of ceasing to be a substantial holder
28/9/2021	Quantum Company Presentation September 2021
28/9/2021	Quantum Annual Report FY 2021
28/9/2021	Appendix 4G – Corporate Governance Disclosures

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5 Information about Paragon

This Section 5 has been prepared by Paragon. The information concerning Paragon and the intentions, views and opinions contained in this Section 5 are the responsibility of Paragon. Quantum and its officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

5.1 Overview of Paragon

5.1.1 Principal activities of Paragon

Paragon (ASX:PGC) is an Australian based ASX listed company operating in the healthcare sector. Paragon is a provider of medical equipment, devices and consumables for the Australian and New Zealand healthcare markets. Paragon has reseller relationships with over 100 manufacturers to supply hospitals and healthcare facilities in Australia and New Zealand.

As at the date of this Scheme Booklet, Paragon has over 420 staff including 119 in the sales team, more than 60 in the service and technology team and 53 in customer support across offices and warehouses throughout Australia and New Zealand.

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5.1.2 *Paragon products and services*

Paragon provides products and services to a range of healthcare customers across four strategic pillars:

DEVICES	DIAGNOSTICS	CAPITAL & CONSUMABLES	SERVICE & TECHNOLOGY
EYE CARE ORTHOPAEDICS	BLOOD BANK LABORATORY	UROLOGY, CRITICAL CARE NEONATAL, RADIOLOGY	MANAGEMENT REPORTING MAINTENANCE
36% FY21 rev	11% FY21 rev	45% FY21 rev	8% FY21 rev

(a) Devices business

Paragon's devices business focuses on eye care and orthopaedics. The eye care team delivers comprehensive solutions, with devices and equipment for optometry and ophthalmic surgery. The orthopaedic team focusses on innovative hip and knee prosthetic solutions, along with pain management and advanced surgical spine solutions.

KEY BRANDS

surgical specialties	Surgical and critical care across orthopaedics, spine, oncology, paediatrics, spine, general surgery and pain management
LOVELL SURGICAL SOLUTIONS	Surgical and critical care across ophthalmology, gynaecology, heart and lung, packs and DNA kits
insight SURGICAL	Ophthalmic solutions and surgical products and packs
DESIGNS FOR VISION	Ophthalmology and optometry including diagnostic and surgical products

ILLUSTRATIVE PRODUCTS

(b) Diagnostics business

Paragon's diagnostics business provides clinical solutions to immunohaematology, diagnostic and scientific laboratories.

KEY BRANDS

LabGear AUSTRALIA	Laboratory equipment, consumables and technical service
immuno™	Diagnostics covering pathology, reagents and software
immulab	Immunohematology (blood banking) across reagents, red blood cell and ancillary products for laboratories

ILLUSTRATIVE PRODUCTS

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(c) Capital and consumables business

Paragon's capital and consumables business supplies a broad range of medical, surgical and aged care capital and consumable products.

KEY BRANDS

SCANMEDICS	Diagnostic, ultrasound, newborn care and hearing screening, temperature management solutions, balance and mobility
MediTron	Urology and ultrasound including surgical lasers, lithotripsy, fusion biopsy
western biomedical	Surgery, laboratory, radiology, intensive care, oncology, general medical, pharmacy, paediatrics, aged care, anesthesia, urology
REM SYSTEMS LIMITED	Haematology, oncology, intensive care, paediatrics, pain management and anesthesia, pharmacy, homecare, veterinary

ILLUSTRATIVE PRODUCTS

ULTRASOUND

TEMPERATURE SYSTEMS

UROLOGY INSTRUMENTS

INCUBATORS

LASER SYSTEMS

VITAL SIGNS DEVICES

(d) Service and technology business

Paragon's service and technology business comprises a network of engineers who provide service and technology support to its customers.

KEY BRANDS

medtek	Biomedical engineering services and preventative maintenance
ELECTRO MEDICAL GROUP	Support and technology management
MedTech SOLUTIONS	Engineering, support and technology management of therapy and imaging equipment
TOTAL COMMUNICATIONS	Communication technology solutions with 24/7 national help desk support

ILLUSTRATIVE PRODUCTS

EQUIPMENT REPAIR AND MAINTENANCE

LABORATORY AND SCIENTIFIC SERVICES

TOTAL EQUIPMENT MANAGEMENT

5.1.3 *Paragon Board*

As at the date of this Scheme Booklet, the directors of Paragon are:

Name and position	Profile
Shane Tanner Chair	Shane Tanner is an experienced and accomplished professional within the Australian healthcare sector. Shane has been responsible for and orchestrated a number of acquisitions (both small and large) as well as helped establish a number of significant businesses where he has been deeply involved in both the growth and management up-skilling of these businesses. Shane also has considerable public company experience at senior executive and board level.
Mark Simari Non-Executive Director	Mark Simari is an experienced and accomplished professional in the health industry and has over 12 years' board experience in a diverse range of organisations, including not-for profits. Mark co-founded Paragon in 2008 and is the former CEO and Managing Director of Paragon between 2008 and 2018. He was instrumental in Paragon becoming one of the largest independent healthcare suppliers in Australia and New Zealand, creating a healthcare platform spanning across capital equipment, consumables, devices and service and maintenance. Mark has also held various board positions in other companies such as Social Investment Australia Limited, Sage Capital Group Pty Ltd, InterPrac Financial Planning Pty Ltd and DKN Financial Group. Mark is presently the executive chairman of Careteq Limited and chairman of Charkaroo Pty Ltd (trading as Akita Consulting). He also holds an advisory role with Fruitlink Pty Ltd.
Geoffrey Sam OAM Non-Executive Director	Geoffrey Sam has had a distinguished career in the Australian healthcare sector. Geoff has an OAM for services to the private health industry. He was a co-founder and, until April 2016 Executive Chairman of Healthe Care Australia Pty Ltd, a private hospital group comprising 17 hospitals and a community nursing business throughout Australia. Geoff remains a director and the Executive General Manager for Clinical Governance, Risk and Safety of Healthe Care Australia Pty Ltd. Geoff has held executive roles with profit and not-for-profit hospital groups, including serving as the CEO and managing director of ASX-listed Nova Health Limited and as the CEO of the Adelaide Community Health Alliance. Geoff has held previous non-executive board positions on listed companies including Hutchinson Childcare Services Limited, Money3 Corporation Limited. Geoff is currently a non-executive director of EarlyPay Ltd (formerly called CML Group Limited). Geoff's special areas of expertise include corporate strategic positioning and corporate governance.
Brent Stewart Non-Executive Director	Brent Stewart is an experienced company executive, investor and non-executive director, having occupied numerous CEO and board roles over the past 25 years. Brent brings to Paragon a strong track record of growing businesses, innovation and strategy. His professional background includes a wide range of experience in marketing, technology and strategic planning at an international level. He has had a long association with various segments of the healthcare sector in Australia and overseas.

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5.1.4 *Paragon's executive management*

Name and position	Profile
Phil Nicoll Chief Executive Officer	Phil Nicoll has been CEO of Paragon since December 2019. Prior to that Phil was CEO and part owner of one of Paragon's largest businesses Surgical Specialties Pty Ltd which is a highly regarded player in the orthopedics market in Australia and New Zealand. Surgical Specialties Pty Ltd enjoyed a strong track record of growth and profitability under his leadership. Phil has extensive experience in the medical devices industry having occupied senior executive roles in the Asia Pacific, including with Stryker (2004 to 2013: being its President for last two years) and Cochlear (2001 – 2004 as President Asia Pacific).
Stephen Munday Chief Financial Officer	Stephen Munday is an experienced financial and governance professional and has over 25 years' experience on or working directly with boards in a diverse range of organisations. Stephen has extensive experience across Australia and North America including Chief Financial Officer and Company Secretary positions in several listed companies over that time. Stephen's experience also includes a range of responsibilities in a variety of management functions including marketing, business development, supply management, commercial management, financial management, change management, compliance, and governance. Since 2015, Stephen has been working in the aged care and healthcare sectors, including in his current role with Paragon, as well as his role as non-executive director and chair of the Audit Risk and Compliance Committee of Care Connect Limited (a major secular at-home aged care services provider in New South Wales, Queensland and Victoria). Stephen holds a Masters of Business Administration, and is a graduate member of the Australian Institute of Company Directors, a member of the Institute of Chartered Accountants, and a fellow of the Governance Institute of Australia. He is a registered company auditor.
Melanie Leydin Company Secretary	Melanie Leydin holds a Bachelor of Business majoring in Accounting and Corporate Law. She is a member of the Institute of Chartered Accountants, a fellow of the Governance Institute of Australia and is a registered company auditor. She graduated from Swinburne University in 1997, became a chartered accountant in 1999 and since February 2000 has been the principal of Leydin Freyer. The practice provides outsourced company secretarial and accounting services to public and private companies across a host of industries including but not limited to the resources, technology, bioscience, biotechnology and health sectors. Melanie has over 25 years' experience in the accounting profession and over 15 years' experience as a company secretary. She has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of companies and shareholder relations.

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5.1.5 *Corporate governance*

The Paragon Board is responsible for the corporate governance of Paragon. Paragon has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) (**CG Principles and Recommendations**) to the extent appropriate to the size and nature of its operations.

Paragon's 2021 Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any CG Principles and Recommendations that have not been followed is available on Paragon's website at https://paragoncare.com.au/corporate-governance.

An overview of Paragon's charters and policies is set out in the table below.

Principle	Outline
Director independence	To be judged independent, a Paragon Director must, in the opinion of the Paragon Board, be independent of management, free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their judgment and otherwise meet the criteria for independence set out in the CG Principles and Recommendations. Under the Paragon Board Charter, the Paragon Board reviews the independence of each Paragon Director regularly considering information disclosed to the Paragon Board, having regard to the factors set out above.
Board Charter	The Paragon Board is governed by the Paragon Board Charter which clearly defines the respective roles, responsibilities and authorities of the Paragon Board and sets out matters reserved for the board's determination and those matters delegated to management.
Committees	The Paragon Board has established the following committees: • **Nomination and Remuneration Committee**: the Nomination and Remuneration Committee is governed by the Nomination and Remuneration Committee Charter and assists the Paragon Board in ensuring that the Paragon Directors have a broad range of experience, expertise, skills, qualifications and contacts and that they are relevant to Paragon and its business. • **The Audit and Risk Committee**: the Audit and Risk Committee is governed by the Audit and Risk Committee Charter and assists the Paragon Board in overseeing Paragon's corporate reporting processes. • **Investment Committee**: the Investment Committee is governed by the Investment Committee Charter and assists the Paragon Board in relation to acquisitions and acquisition opportunities.
Corporate Governance Policies	Paragon has adopted the following corporate governance policies: • Anti-Bribery & Corruption Policy; • Board Renewal & Succession Policy; • Code of Conduct; • Continuous Disclosure Policy; • Diversity & Inclusion Policy; • Modern Slavery Policy; • Privacy Policy; • Risk Management Policy; • Securities Trading Policy; • Shareholder Communication Policy; • Treasury Policy; and • Whistleblower Policy.

Copies of the charters and policies referred to in this Section 5.1.5 can be accessed at Paragon's website at https://paragoncare.com.au/corporate-governance.

5.2 Paragon historical financial information

5.2.1 Overview

This Section 5.2.1 contains the following historical financial information of Paragon:

(a) historical income statements for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 (**Paragon Historical Income Statements**);

(b) historical statements of financial position as at 30 June 2019, 30 June 2020 and 30 June 2021 (**Paragon Historical Statements of Financial Position**); and

(c) historical statements of cash flows for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 (**Paragon Historical Statements of Cash Flows**),

(together, the **Paragon Historical Financial Information**).

All amounts disclosed in this Section 5.2.1 are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest $'000. Any discrepancies between totals and sums of components in tables and figures contained in this Section 5.2.1 are due to rounding.

The financial information in this Section 5.2.1 is a summary only and has been prepared and extracted for the purposes of this Scheme Booklet only.

The Paragon Historical Financial Information presented in this Section 5.2.1 has been derived from the audited consolidated financial statements of Paragon for the financial year ended 30 June 2019, 30 June 2020 and 30 June 2021 (see section 5.2.2 below for important information regarding the basis of preparation of the Paragon Historical Financial Information).

The consolidated financial statements of Paragon for the financial years ended 30 June 2019, 30 June 2020 and 30 June 2021 were audited in accordance with the Australian Auditing Standards. Further detail about Paragon's financial performance can be found in the financial statements for the full year ended 30 June 2021, which was announced to the ASX on 27 August 2021 and which can be found on https://paragoncare.com.au/investor-centre.

5.2.2 Basis of preparation

The Paragon Historical Financial Information is in an abbreviated form and does not contain all the disclosures, presentation, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act and should therefore be read in conjunction with:

- the rest of this Scheme Booklet, including information on the risk factors set out in Section 7; and
- the financial statements of Paragon for the respective periods, including the description of the significant accounting policies contained in those financial statements and the notes to the financial statements, all of which are available at https://paragoncare.com.au/investor-centre or the ASX website at www2.asx.com.au.

Past performance is not a guide to future performance.

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5.2.3 *Paragon Historical Income Statements*

A$'000	FY21	FY20	FY19
Revenues from Continuing Operations	235,840	231,689	236,009
Cost of Sales	(145,527)	(144,874)	(140,981)
Gross Profit	**90,313**	**86,815**	**95,028**
Employee Benefit Expense	(47,226)	(46,678)	(49,261)
Occupancy Expense	(1,398)	(1,269)	(1,336)
Marketing Expenses	(911)	(3,434)	(2,665)
Distribution Expense	(6,331)	(4,186)	(4,459)
Other Operating Expenses	(10,937)	(15124)	(8,437)
Other Income	1,490	131	1,162
Impairment of Other Assets	-	(14,016)	(2,335)
Impairment of Goodwill	-	(54,235)	-
Fair Value Gain/(loss) on Financial Assets	1,525	(4,577)	-
Provision for Obsolescence of Inventory – Change in Accounting Estimates	-	(5,702)	-
Depreciation and Amortization	(6,200)	(8,053)	(10,008)
Interest Revenue	18	189	575
Finance Costs	(8,012)	(7,064)	(5,949)
Profit/(loss) before income tax (expense)/benefit from continuing operations	**12,331**	**(77,203)***	**12,315**
Income Tax Expense	(4,052)	5,603	(3,453)
Profit/(loss) after income tax (expense)/benefit from continuing operations	**8,279**	**(71,600)**	**8,862**
Loss after income tax benefit from discontinued operations	-	(5,669)	(23,248)
Profit/(loss) after income tax (expense)/benefit to the owners	**8,279**	**(77,269)**	**(14,386)**
Other Comprehensive Income			
Foreign currency translation	(196)	(1,768)	1,632
Cash flow hedges transferred to profit or loss, net of tax	1,085	(998)	(436)
Total Comprehensive income attributable to the owners	**9,168**	**(80,035)**	**(13,190)**

**Paragon completed its strategic review in FY20 under the new management team. FY20 Profit/(loss) before income tax varies to other years due to once off, restructuring and non-operating expenses incurred.*

Differences between published Financial Statements and the Paragon Historical Financial Information – change in expense classification in FY20 and FY19

During the FY21 financial year, the Paragon Group modified the classification of certain expenses to reflect the financial performance of the Paragon Group more appropriately. Comparative amounts for FY20 in the statement of profit or loss and other comprehensive income were restated in the FY21 accounts for consistency. To be consistent, the FY19 comparative numbers have also been restated in this Scheme Booklet. The effect on the comparative expenses in the statement of profit or loss and other comprehensive income for the modification are as follows:

Year ended 30 June 2020	Current FY20 classification	Previous FY20 classification	Change
	$'000	**$'000**	**$'000**
Employee benefits expense	46,678	-	46,678
Depreciation and amortisation expense	8,053	-	8,053
Distribution expenses	4,186	3,500	686
Marketing expenses	3,434	1,710	1,724
Occupancy expenses	1,269	2,010	(741)
Other expenses	15,124	-	15,124
Administration	-	70,584	(70,584)

Year ended 30 June 2020	Current FY20 classification	Previous FY20 classification	Change
Allowance for expected credit losses	-	940	(940)
Loss after tax for the year attributable to owners	**78,744**	**78,744**	**-**

Year ended 30 June 2019	Current FY19 classification	Previous FY19 classification	Change
	$'000	**$'000**	**$'000**
Employee benefits expense	49,261	-	49,261
Depreciation and amortisation expense	10,008	-	10,008
Distribution expenses	4,459	4,459	-
Marketing expenses	2,665	2,665	-
Occupancy expenses	1,336	1,336	-
Other expenses	8,437	-	8,437
Administration	-	67,669	(67,669)
Impairment of assets	2335	2,335	-
Allowance for expected credit losses	-	37	(37)
Finance Costs	5,959	5,959	-
Loss after tax for the year attributable to owners	**84,460**	**84,460**	**-**

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5.2.4 *Paragon Historical Statements of Financial Position*

A$'000	FY21	FY20	FY19
Cash and Cash Equivalents	33,197	24,505	34,224
Investments	-	-	22
Trade and Other Receivables	26,201	31,574	44,133
Income Tax Refund Due	407	70	5,736
Inventories	51,578	46,662	51,407
Derivative Financial Instruments (A)	-	-	291
Financial Assets	416	-	-
Other Current Assets	1,413	1,694	2,117
Non-current Assets Classified as Held for Sale	-	1,800	-
Current Assets	113,212	106,305	137,930
Right of Use Assets	9,032	14,265	20,923
Property, Plant and Equipment	7,464	7,184	13,056
NC Financial Assets	-	-	-
Other Non-Current Assets	-	-	-
Investment Property	-	-	-
Defined-benefit Plans (A)	-	-	-
Deferred Tax	10,838	14,757	7,392
Other Receivables	-	-	574
Intangibles Assets	151,374	149,660	204,321
Non-Current Assets	178,708	185,866	246,266
Trade and Other Payables	(36,100)	(26,921)	(47,947)
Employee Benefits (Current)	(4,901)	(4,572)	(4,296)
Borrowings (Current)	(21,794)	(16,767)	(10,136)
Lease Liabilities (Current)	(3,648)	(3,722)	(3,031)
Derivative Financial Instruments (L)	(3,047)	(5,711)	-
Provision for Income Tax	-	-	-
Other Current Liabilities	(12,720)	(11,853)	(7,462)
Vendor Conditional Payables (Current)	-	(15,331)	-
Contract Liabilities (Current)	-	-	-
Short-term Provisions	-	-	-
Current Liabilities	(82,210)	(84,877)	(72,872)
Borrowings (Non-Current)	(80,471)	(82,159)	(89,243)
Lease Liabilities (Non-Current)	(7,098)	(12,380)	(19,221)
Contract Liabilities (Non-Current)	-	-	-
Employee Benefits (Non-Current)	(623)	(474)	(871)
Vendor Conditional Payables (Non-Current)	-	-	(9,673)
Defined-benefit Plans (L)	-	-	-
Other Payables (Non-Current)	-	-	-
Non-Current Liabilities	(88,192)	(95,013)	(119,008)
Net Assets	121,518	112,281	192,316
Common Stock - Par Value	(113,952)	(202,718)	(202,718)
Retained Earnings/accumulated Losses	-	88,766	11,497
Reserves	(7,566)	1,671	(1,095)
Minority Interest	-	-	-
Total Equity	(121,518)	(112,281)	(192,316)

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5.2.5 *Paragon Historical Statements of Cash Flows*

A$'000	FY21	FY20	FY19
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	264,516	265,178	261,874
Payments to suppliers and employees (inclusive of GST)	(232,509)	(260,020)	(246,629)
Government Assistance received (JobKeeper subsidy)	2,985	998	-
Other Income	1,413	-	
Interest Received	18	189	381
Interest and other finance costs paid	(8,012)	(6,107)	(5,959)
Income Taxes Refunded / (paid)	(948)	5,049	(8,509)
Net Cash from operating activities	27,463	5,287	1,158
Cash flows from investing activities			
Payment for purchase of businesses, net of cash acquired	-	(4,224)	(28,196)
Payment for vendor earn out of prior business acquisitions	(15,331)	-	
Payments for property, plant and equipment	(3,327)	(2,315)	(5,828)
Payments for acquisition of investment	-	-	(1)
Payments for intangibles	(1,959)	(4,951)	(3,893)
Payments for security deposits	(134)	(33)	-
Proceeds from disposal of business			1,352
Proceeds from disposal of investments	-	22	-
Proceeds from disposal of property, plant and equipment	1,948	-	1,012
Proceeds from release of security deposits	-	98	80
Net cash used in investing activities	(18,803)	(11,403)	(35,474)
Cash flows from financing activities			
Proceeds from issue of shares			45,196
Share issue transaction costs			(2,907)
Proceeds from borrowings (net)	4,140	6,076	-
Repayment of borrowings (net)	(801)	(5,925)	(4,488)
Repayment of lease liabilities	(3,307)	(3,754)	(950)
Dividends paid			(8,703)
Net cash used in financing activities	32	(3,603)	28,148
Net increase/(decrease) in cash and cash equivalents	8,692	(9,719)	(6,168)
Cash and cash equivalents at the beginning of the financial year	24,505	34,224	40,392
Cash and cash equivalents at the end of the financial year	33,197	24,505	34,224

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5.3 Material changes to Paragon's financial position since 30 June 2021

Since 30 June 2021, Paragon has made a $4.0 million repayment of Paragon's debt facility.

To the knowledge of the Paragon Directors, other than the above matter and expenditure in the ordinary course of business and as otherwise disclosed in this Scheme Booklet, the financial position of Paragon has not changed materially since 30 June 2021, being the date of the last balance sheet prepared in accordance with the Corporations Act before this Scheme Booklet was sent to Quantum Shareholders.

As part of Paragon's ongoing streamlining of its business operations, Paragon has entered into a fifteen-year lease of new premises in Melbourne where it will consolidate all of its Victorian operations over the next twelve to eighteen months. The consolidation will enable Paragon to expand and modernise Immulab's manufacturing facilities ready for its expansion into Asia. This new long-term lease will increase the right-of-use asset and related lease liability on Paragon's balance sheet in accordance with AASB 16: Leases (**AASB16**), however, the discontinuation of other existing Victorian leases will also decrease these numbers. The net change expected is an additional lease liability on Paragon's statement of financial position of approximately $20 million due to the long-term nature of the new premises lease. The fit-out of the new premises is expected to take 12 months to complete and is to modernise and expand Immulab manufacturing capability and to create a state-wide logistics hub. The fit-out is expected to be largely funded through government grants and landlord incentives. Once the new facilities are completed and Paragon has received regulatory approval for it to operate as a medical manufacturing site, Paragon expects a net increase of rent (net of rent savings from operations relocated and the termination of existing leases) of approximately $500,000 per annum. Paragon's right-of-use asset and lease liability will increase on signing the lease; however, no rent will be actually payable until October 2022.

5.4 Full-year result FY21

On request, a copy of Paragon's 2021 Annual Report will be provided to Quantum Shareholders.

Alternatively, a copy of Paragon's 2021 Annual Report can be found on the ASX website at www2.asx.com.au or on Paragon's website at https://paragoncare.com.au/asx-announcements.

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5.5 Corporate structure

Paragon's Subsidiaries are set out in the table below. All Subsidiaries are wholly-owned by Paragon. On Implementation of the Scheme, Quantum will become a wholly-owned Subsidiary of Paragon and each of the Subsidiaries of Quantum will form part of the Paragon Group (being the Merged Group from Implementation).

Name	Principal place of business / Country of incorporation	Ownership 2021 (%)
Paragon Care Group New Zealand Management Services Ltd	New Zealand	100%
Paragon Care Group New Zealand Ltd	New Zealand	100%
Paragon Care Group Management Services Pty Ltd	Australia	100%
Paragon Care Group Australia Pty Ltd	Australia	100%
Paragon Care Group Holding Company Pty Ltd	Australia	100%
Medtek Pty Ltd*	Australia	100%
Paragon Medical Ltd*	New Zealand	100%
Designed for Vision Ltd*	New Zealand	100%
REM Systems Ltd*	New Zealand	100%
REM Systems Pty Ltd*	Australia	100%
Meditron Pty Ltd*	Australia	100%
Western Biomedical Pty Ltd*	Australia	100%
Designs For Vision Holdings Pty Ltd*	Australia	100%
Designs For Vision (Aust) Pty Ltd*	Australia	100%
Designs For Vision Pty Ltd*	Australia	100%
Electro Medical Group Pty Ltd*	Australia	100%
MIDAS Software Solutions Pty Ltd*	Australia	100%
Immulab Pty Ltd*	Australia	100%
Insight Surgical Pty Ltd*	Australia	100%
MedTech Solution Pty Ltd*	Australia	100%
Surgical Specialities Holdings Pty Ltd*	Australia	100%
Surgical Specialities Group Pty Ltd*	Australia	100%
Surgical Specialities Pty Ltd*	Australia	100%
Therapy Specialities Pty Ltd*	Australia	100%
Surgical Specialities (NZ) Ltd*	New Zealand	100%
Therapy Specialities Ltd*	New Zealand	100%
Pergamon Technologies Pty Ltd*	Australia	100%
Immuno Pty Ltd*	Australia	100%
Immuno Ltd*	New Zealand	100%
Labgear Australia Pty Ltd*	Australia	100%
Paragon Medical Pty Ltd*	Australia	100%
Scanmedics Pty Ltd*	Australia	100%
Lovell Surgical Supplies International Pty Ltd*	Australia	100%
Lovell Surgical Supplies Pty Ltd*	Australia	100%
Lovell Surgical Solutions Pty Ltd*	Australia	100%
Total Communications Pty Ltd*	Australia	100%

* Dormant Subsidiary of Paragon Care Group Holding Company Pty Ltd

5.6 Paragon's issued securities

5.6.1 Paragon's recent share price history

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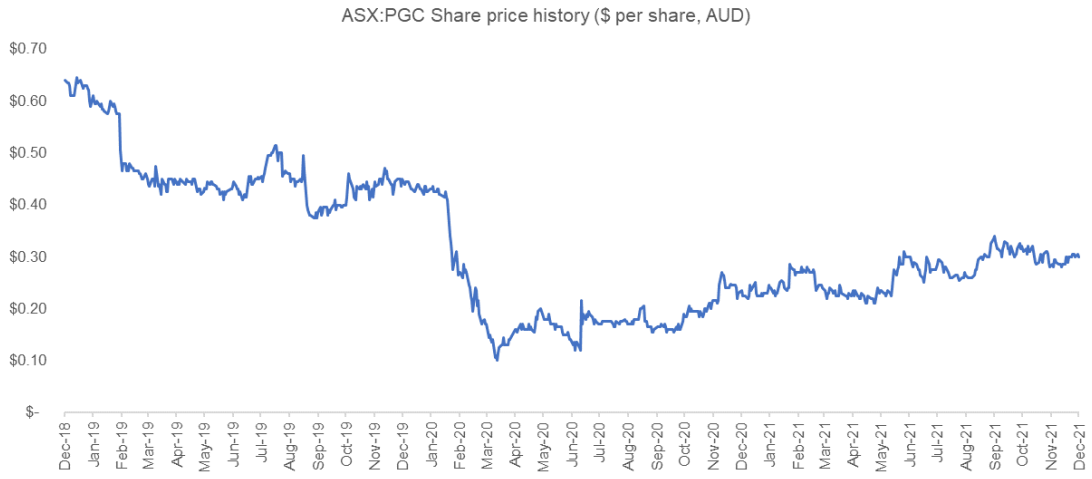
Paragon Shares are listed on the ASX under the ticker "PGC". As at 5 November 2021 (being the last trading day prior to the announcement of the execution of the Scheme Implementation Deed), the closing price of Paragon Shares on the ASX was $0.305.

The closing price of Paragon Shares on the ASX on 14 December 2021 being the Last Practicable Date was $0.300.

During the last ninety trading days ending on the Last Practicable Date:

- the highest recorded daily closing price for Paragon Shares was $0.340 on 14 September 2021; and
- the lowest recorded daily closing price for Paragon Shares on the ASX was $0.260 on 11 August 2021.

The chart below shows Paragon's share price performance over the three years to the Last Practicable Date.



5.6.2 *Paragon Shares at the date of this Scheme Booklet*

As at the Last Practicable Date, Paragon's issued securities are as follows:

Type of security	Number on issue
Paragon Shares	351,400,699
Paragon performance rights	11,414,507

Subject to the terms of each performance right, each performance right is capable of being converted into one Paragon Share.

5.6.3 *Substantial Paragon Shareholders*

As at the Last Practicable Date, the substantial holders (applying the Corporations Act meaning) of Paragon Shares were as follows:

Substantial holder	Number of Paragon Shares	Voting power in Paragon
China Pioneer	52,435,121	14.92%
First Samuel Limited	25,944,520	8.68%

5.7 Material contracts

Certain contracts that Paragon considers to be material to its business (**Material PGC Contracts**) contain change of control provisions that will be triggered as a result of the Implementation of the Scheme. Where counterparty consent is not received for such contracts, this may constitute an event of default or otherwise give rise to termination rights in favour of the counterparty.

As at the date of the Scheme Booklet, Paragon has received change of control consent from all counterparties to Material PGC Contracts, including from its financier, National Australia Bank, noting that NAB's consent remains subject to the satisfaction or waiver of conditions, including those conditions to Scheme. Further details regarding the conditions to the Scheme Implementation Deed are set out at Section 3.5.1. As at the date of this Scheme Booklet, Paragon's Directors are not aware of any circumstances which would cause the outstanding conditions to NAB's consent not to be satisfied.

5.8 Paragon dividends

On 27 August 2021, Paragon declared a dividend of 1 cent per Paragon Share which represents 41% of NPAT for the financial year ended 30 June 2021, consistent with its dividend policy targeting a dividend equal to 40-60% of NPAT.

5.9 Information about Paragon's other securities

Paragon operates an employee incentive scheme called the 'Paragon Employee Incentive Plan' (**Plan**) which provides for the granting of Paragon securities as incentive-based remuneration to eligible Paragon employees. The Plan was approved by Paragon Shareholders at Paragon's annual general meeting held on 20 November 2018 and at its annual general meeting held on 18 November 2021. There are currently 29 past and present employees participating in the Plan.

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5.10 Interests of Paragon Directors

5.10.1 Interests of Paragon's Directors in Paragon Securities

The table below lists the Relevant Interests of Paragon Directors in Paragon Shares as at the date of this Scheme Booklet.

Name	Number of Paragon Shares	Number of Performance Rights
Shane Tanner	1,040,000	Nil
Mark Simari	407,129	Nil
Geoffrey Sam OAM	1,972,649	Nil
Brent Stewart	3,376,187	Nil

This includes the following Relevant Interests that were acquired on 1 October 2021 through participation in Paragon's dividend reinvest plan for the final dividend declared for the 2021 financial year:

- Shane Tanner, in respect of 40,000 Paragon Shares;
- Mark Simari, in respect of 15,658 Paragon Shares;
- Geoffrey Sam OAM, in respect of 7,974 Paragon Shares; and
- Brent Stewart, in respect of 129,853 Paragon Shares.

Other than as set out above, no Paragon Director has acquired or disposed of a Relevant Interest in any Paragon Shares during the four months before the date of this Scheme Booklet.

5.10.2 Interests of Paragon's Directors in marketable securities in Quantum

As at the date of this Scheme Booklet no marketable securities in Quantum are held by, or on behalf of, any Paragon Director. No Paragon Director acquired or disposed of any marketable securities of Quantum during the four months before the date of this Scheme Booklet.

5.10.3 Interests of Paragon Directors in contracts with Quantum

As at the date of this Scheme Booklet, no Paragon Director has an interest in any contract entered into by Quantum.

5.10.4 Other interests of Paragon Directors

The Paragon Directors have no interest in the outcome of the Scheme, except as provided for in this Scheme Booklet.

5.11 Disclosure of interests

5.11.1 Interests in connection with the issue of new Paragon Shares

Except as otherwise provided in this Scheme Booklet, no:

- Paragon Director or proposed director of Paragon;
- person named in this Scheme Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Scheme Booklet for or on behalf of Paragon; and
- promoter, stockbroker or underwriter of Paragon or the Merged Group,

(together, the **Interested Persons**) holds, or held at any time during the two years before the date of this Scheme Booklet any interests in:

- the formation or promotion of Paragon or the Merged Group;
- property acquired or proposed to be acquired by Paragon in connection with the formation or promotion of Paragon or the Merged Group or the offer of Paragon Shares under the Scheme; or
- the offer of Paragon Shares under the Scheme.

5.11.2 Paragon's interest and dealings Quantum Shares

As at the date of this Scheme Booklet, Paragon does not have a Relevant Interest in Quantum Shares.

Except for the consideration to be provided under the Scheme and as otherwise described in this Scheme Booklet, none of Paragon, any of its Related Bodies Corporate (or any of their respective Associates) has provided or agreed to provide consideration for any Quantum Shares under any transaction during the period of four months before the date of this Scheme Booklet.

Paragon has not acquired or disposed of a Relevant Interest in any Quantum Shares in the four months preceding the date of this Scheme Booklet.

5.12 Disclosure of fees and other benefits

Except as otherwise disclosed in this Scheme Booklet, Paragon has not paid or agreed to pay any fees, or provided or agreed to provide any benefit:

(a) to a director or proposed director of Paragon to induce them to become or qualify as a director of Paragon;

(b) for services provided by any Interested Persons in connection with:

  (i) the formation or promotion of Paragon or the Merged Group; or

  (ii) the offer of Paragon Shares under the Scheme.

5.13 Paragon's interests in Quantum Shares

5.13.1 Interests in Quantum Shares

As at the date of this Scheme Booklet, none of Paragon or any of its Associates had any Relevant Interest or voting power in any Quantum Shares.

5.13.2 No dealings in Quantum Shares in previous four months

None of Paragon or any of its Associates has provided, or agreed to provide, consideration for Quantum Shares under any purchase or agreement during the four months before the date of this Scheme Booklet.

5.13.3 No inducing benefits given during previous four months

During the period of four months before the date of this Scheme Booklet, none of Paragon or any of its Associates gave, or offered to give, or agreed to give a benefit to another person which was likely to induce the other person, or an associate of the other person, to:

(a) vote in favour of the Scheme; or

(b) dispose of Quantum Shares,

where the benefit was not offered to all Quantum Shareholders.

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5.13.4 Benefits to current Quantum officers

Other than as disclosed in this Scheme Booklet, none of Paragon or any of its Associates will be making any payment or giving any benefit to any current director, secretary or executive officer of Quantum or any of its Related Bodies Corporate as compensation or consideration for, or otherwise in connection with, their resignation from their respective offices if the Scheme is Implemented.

5.14 Related party arrangements

Paragon is party to the following related party arrangements, which are described in its 2021 Annual Report:

(a) Paragon has a corporate advisory mandate with a party whose corporate authorised representative is Charkaroo Pty Ltd. Charkaroo Pty Ltd is entitled to a portion of fees paid by Paragon under that corporate advisory mandate. Mark Simari, a Paragon Director, is a director and shareholder of Charkaroo Pty Ltd;

(b) Paragon has appointed Mark Simari (a Paragon Director) trading as Akita Consulting (**Akita**) to provide consultancy services for potential business opportunities that arise from time to time, which includes services provided in connection with the Scheme as further disclosed in Section 9.6.2. Under the terms of this arrangement, Akita provides ongoing corporate advisory advice and services, including specific advice on a transaction-by-transaction basis with acquisition fees agreed for each transaction. In respect of services provided by Akita in relation to the Scheme, Akita is entitled to be paid $250,000 if the Scheme is Implemented. The Paragon Board considers the arrangement to be on arm's length terms and while Paragon shareholder approval has not been obtained for this agreement, the fact of the agreement has been disclosed consistently in Paragon's annual reports. The Paragon Board does not consider there to be any risks associated with this arrangement; and

(c) Paragon sells products to a customer and a director of that customer is Geoffrey Sam, a Paragon Director.

Paragon was previously party to certain earn out arrangements in relation to Paragon's acquisition of Surgical Specialties Pty Ltd, with such earn out amounts payable to an entity related to Brent Stewart, a Paragon Director. These arrangements have now been fully satisfied.

5.15 Litigation

As at the date of this Scheme Booklet, Paragon is not involved in any material legal disputes and is not party to any material litigation.

5.16 Rights and liabilities attaching to new Paragon Shares

5.16.1 Introduction

The rights and liabilities attaching to the Paragon Shares which will be issued as Scheme Consideration are set out in Paragon's Constitution and are also subject to the Corporations Act and the ASX Listing Rules.

The following is a summary of the main rights and liabilities attaching to Paragon Shares. This summary does not purport to be exhaustive or to constitute a definitive statement of all of the rights and liabilities attaching to Paragon Shares. Such rights and liabilities involve complex questions of law arising from the interaction of the Paragon Constitution and statutory and common law requirements. This summary must be read subject to the full text

of the Paragon Constitution, available from Paragon's website at https://paragoncare.com.au/asx-announcements.

5.16.2 *Overview*

The Paragon Shares will be issued fully paid and will rank equally in all respects with existing Paragon Shares, with effect from their date of issue.

Under the Corporations Act, the Paragon Constitution has effect as a contract between:

(a) Paragon and each Paragon Shareholder;

(b) Paragon and each director and company secretary of Paragon; and

(c) a Paragon Shareholder and each other Paragon Shareholder.

Accordingly, Eligible Shareholders who receive Paragon Shares under the Scheme will be taken to receive them subject to the terms of the Paragon Constitution and will be bound by the terms of the Paragon Constitution.

5.16.3 *Meeting of Paragon Shareholders and notices*

Paragon Shareholders' rights to attend and vote at shareholder meetings are primarily prescribed by the Corporations Act. Subject to certain exceptions, each Paragon Shareholder is entitled to receive notice of, attend (whether or not entitled to vote) and vote at general meetings and to receive all notices and other documents required to be sent to Paragon Shareholders under the Paragon Constitution, the Corporations Act and the ASX Listing Rules.

Paragon may give a notice of meeting to Paragon Shareholders by serving it personally, sending it by post to the address shown in the Paragon Register or such other address nominated by the Paragon Shareholder, or (unless the Paragon Shareholder has requested otherwise) electronically to the address provided by the Paragon Shareholder for the purpose of giving notices or by other electronic means determined by the Paragon Board acting reasonably and previously notified to Paragon Shareholders.

5.16.4 *Voting rights*

Subject to any rights or restrictions attached to Paragon Shares and the terms of the Paragon Constitution, at a general meeting of Paragon Shareholders, every Paragon Shareholder entitled to vote in person or by proxy, attorney or representative has:

(a) one vote on a show of hands; and

(b) one vote on a poll for every Paragon Share held.

If more than one joint holder of a Paragon Share is present at a meeting and tenders a vote, the vote of the Paragon Shareholder named first in the Paragon Register will be accepted to the exclusion of others.

A person present at a general meeting who represents more than one Paragon Shareholder (whether personally, or by proxy, attorney or representative) is entitled to only one vote only on a show of hands, even though he or she represents more than one Paragon Shareholder.

A resolution at a general meeting must be decided on a show of hands unless a poll is demanded. A poll may be demanded (except a resolution concerning the election of the chair of the meeting) by:

(a) the chair of the meeting;

(b) at least five members entitled to vote on the resolution; or

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(c) Paragon Shareholders entitled to cast at least 5% of the votes that may be cast on the resolution on a poll.

5.16.5 Dividends

Subject to the Corporations Act and the terms of the Paragon Constitution, the Paragon Board may resolve to pay a dividend that, in their judgement, the financial position of Paragon justifies and fix the time for payment of such dividend. The decision to pay a dividend may be revoked by the Paragon Board at any time before the time fixed for payment.

Paragon Directors may direct payment of a dividend in cash or satisfy it by the distribution of specific assets (including shares or securities of Paragon or another body corporate).

5.16.6 Issue of further Paragon Shares

Subject to the Corporations Act, the ASX Listing Rules and the Paragon Constitution, Paragon Directors may issue Paragon Shares, and grant options to acquire Paragon Shares and decide the terms on which shares are issued or options are granted and the rights and restrictions attaching to those shares or options.

5.16.7 Transfer of Paragon Shares

Subject to the Paragon Constitution and the rights attached to Paragon Shares under the ASX Listing Rules or the Corporations Act or other applicable legislation, Paragon Shareholders may transfer Paragon Shares by an approved market transfer or an instrument in writing which complies with the requirements of the Paragon Constitution.

Paragon Directors must not register a transfer of Paragon Shares in circumstances set out in the Paragon Constitution (including, but not limited to, where registration of the transfer is forbidden by the Corporations Act and the ASX Listing Rules).

5.16.8 Variation of rights

If Paragon issues different classes of shares or divides issued shares into different shares, the rights attached to a class of shares may be varied or cancelled only:

(a) with the written consent of holders of a majority of the issued shares of the affected class; or

(b) by ordinary resolution passed at a meeting of the holders of the issued shares of that class.

5.16.9 Number of Paragon Directors

Paragon must have at least three directors (excluding alternates).

Subject to the Paragon Constitution and the Corporations Act, Paragon Shareholders may elect any natural person as a Paragon Director by ordinary resolution. The Paragon Board may appoint a person to be a Paragon Director at any time except during a general meeting.

5.16.10 Capitalising profits

Subject to the ASX Listing Rules, any rights or restrictions attached to any Paragon Shares and any special resolution of Paragon in general meeting, Paragon may capitalise profits, reserves or other amounts available for distribution to Paragon Shareholders. Subject to the terms of issue of the Paragon Shares, Paragon Shareholders are entitled to participate in dividends.

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5.16.11 Reduction of capital

Paragon may reduce or alter its capital structure in any manner permitted by the Corporations Act or the ASX Listing Rules.

5.16.12 Winding up

If Paragon is wound up, a liquidator may (with the sanction of a special resolution) divide the assets of Paragon among Paragon Shareholders in kind, and, for that purpose fix the value of assets and decide how the division is to be carried out as between the Paragon Shareholders or different classes of Paragon Shareholders, and vest assets of Paragon trustees on any trusts for the benefit of the Paragon Shareholders as the liquidator thinks appropriate.

5.17 Publicly available information

Paragon is a listed disclosing entity for the purposes of the Corporations Act, and as such is subject to regular reporting and disclosure obligations. Specifically, as an ASX listed company, Paragon is subject to the ASX Listing Rules, which require Paragon (subject to some exceptions) to notify the ASX of any information of which it becomes aware concerning Paragon that a reasonable person would expect to have a material effect on the price or value of the Paragon Shares. Paragon is also required to lodge its annual and half yearly financial reports on ASX.

The disclosures made by Paragon to the ASX are available free of charge from the ASX website at www2.asx.com.au. Further announcements concerning material developments in relation to Paragon will continue to be available on that website after the date of this Scheme Booklet. In addition, Paragon is required to lodge its annual and half yearly financial reports with ASIC. Copies of these and other documents lodged with ASIC by Paragon may be obtained from ASIC.

Information about Paragon, including financial information, is available in electronic form on the Paragon website at www.paragoncare.com.au.

Paragon's announcements to ASX after the lodgement its 2021 Annual Report with ASX on 27 August 2021 to the Last Practicable Date are listed in the table below:

Date	Announcement
29/11/2021	Change of Director's Interest Notice – Geoffrey Sam
26/11/2021	Strategic Partnership with Centuria Healthcare
18/11/2021	Results of Annual General Meeting
18/11/2021	AGM Presentation
18/11/2021	Withdrawal of AGM Resolution
17/11/2021	Investor Presentation
8/11/2021	Notice of Investor Webinar
8/11/2021	Paragon Care and Quantum Merger – Investor Presentation
8/11/2021	Paragon Care to Merge with Quantum Health Group
8/11/2021	QTM: Quantum and Paragon Care Presentation
8/11/2021	QTM: Quantum and Paragon Care Merger Proposal
1/11/2021	Notification regarding unquoted securities – PGC
28/10/2021	JobKeeper Payments Notice
18/10/2021	Notice of Annual General Meeting / Proxy Form
1/10/2021	Change of Director's Interest Notice – Shane Tanner
1/10/2021	Change of Director's Interest Notice – Mark Simari

Date	Announcement
1/10/2021	Change of Director's Interest Notice – Brent Stewart
1/10/2021	Section 708A Cleansing Notice
30/09/2021	Application for quotation of securities – PGC
28/09/2021	Notification regarding unquoted securities – PGC
20/09/2021	Update – Dividend/Distribution – PGC
20/09/2021	Dividend Reinvestment Plan Issue Price
13/09/2021	Important Reminder – Final Dividend and DRP
3/09/2021	Final Director's Interest Notice
3/09/2021	Resignation of Director
27/08/2021	Dividend/Distribution – PGC
27/08/2021	Dividend Reinvestment Plan
27/08/2021	Corporate Governance Statement
27/08/2021	Appendix 4G
27/08/2021	Full Year Results Presentation
27/08/2021	Solid FY21 Profit and Recommencement of Dividends
27/08/2021	Annual Report

5.18 No other material information

Other than as disclosed in Sections 5 (*Information about Paragon*), 6(*Information about Merged Group*) and 7 (*Risk factors*), there is no information regarding Paragon, or its intentions regarding Quantum, that is material to the making of a decision by a Quantum Shareholder about whether or not to vote in favour of the Scheme that is within the knowledge of any director of Paragon as at the date of this Scheme Booklet that has not been previously disclosed to Quantum Shareholders.

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6 Information about the Merged Group

This Section 6 has been prepared by Paragon. The information concerning Paragon and the intentions, views and opinions contained in this Section 6 are the responsibility of Paragon.

6.1 Overview of the Merged Group

The Merger will combine the resources and strengths of Quantum and Paragon to create a stronger Asia Pacific medical equipment, devices, and consumables supplier.

The Merged Group's proposed five strategic pillars is summarised in the diagram below.

6.2 Paragon's rationale for the proposed Merger

Paragon believes that the Merged Group will have an opportunity to cross-sell its combined product portfolio into the Asian markets and attract new suppliers over time based on its larger distribution footprint and commitment to high levels of corporate governance in Asian markets.

Paragon expects that the successful Implementation of the Scheme will lead to:

- diversification across revenue streams, product portfolios, customers and geographies;
- the creation of an expanded Asia Pacific operation that will benefit existing suppliers to both Quantum and Paragon and attract new suppliers;
- enhanced growth opportunities in Asia, particularly for the Immulab business in Paragon's diagnostics pillar;
- anticipated benefits to the Merged Group from stronger recurring revenue streams through maintenance revenue;
- an expanded earnings base with strengthened balance sheet capacity that will provide additional opportunities for growth in the future;
- a strengthened and expanded leadership team; and
- a larger ASX-listed company with enhanced share liquidity, better placed to attract strategic and institutional investors, and pursue growth opportunities.

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6.3 Share capital and other securities of the Merged Group

6.3.1 Paragon issued capital

If the Scheme is Implemented, Paragon will issue up to approximately 274,178,915 Paragon Shares to Scheme Shareholders (or in respect of Ineligible Foreign Shareholders, to the Sale Agent), subject to rounding.

Immediately following Implementation, it is expected that Paragon will have the following securities on issue:[30]

Security	Number on issue
Paragon Shares	625,579,614
Performance rights	11,414,507

6.3.2 Merged Group ownership structure

On Implementation of the Scheme, existing Paragon Shareholders will own approximately 56.17% of the Merged Group and existing Quantum Shareholders will own approximately 43.83% of the Merged Group.

Based on their respective shareholdings in Quantum and Paragon as at the Last Practicable Date, it is expected that the Merged Group (being Paragon post Implementation) will have the following substantial holders immediately following Implementation:

Substantial holder	Number of Paragon Shares	Voting power in Paragon
John Walstab	125,075,111	19.993%
China Pioneer	52,435,121	8.4%

As discussed at Section 3.8, the Escrow Deed (in respect of any Consideration Shares to be issued to Mr John Walstab or any of his Associates) is required to be entered into which has the following restrictions on dealing and disposing of Consideration Shares issued at Implementation (subject to certain exceptions):

(a) 50% of the relevant Consideration Shares for a period of 12 months; and

(b) 50% of the relevant Consideration Shares, for a period of 24 months.

[30] Subject to rounding and assuming that no performance rights are issued, cancelled, exercised or expire before Implementation.

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6.4 Directors and management of the Merged Group

6.4.1 Board of Directors

It is intended that if the Scheme is Implemented, the Paragon Board will consist of the following:

Director	Position
Shane Tanner (current Paragon Director)	Chairman
Mark Simari (current Paragon Director)	Non-Executive Director
Geoffrey Sam OAM (current Paragon Director)	Non-Executive Director
Brent Stewart (current Paragon Director)	Non-Executive Director
John Walstab (current Quantum Director)	Executive Director
Alan McCarthy (current Quantum Director)	Non-Executive Director

Paragon has commenced a recruitment process for a managing director of the Merged Group, who, if appointed, is expected to also join the Paragon Board from their commencement.

6.4.2 Senior management

It is intended that if the Scheme is implemented, the senior management of the Merged Group will consist of those people set out in the table below. Paragon has also commenced the recruitment process for a Managing Director of the Merged Group.

Senior manager	Position
Phil Nicholl	Chief Executive Officer, Paragon, Australia and New Zealand
John Walstab	Chief Executive Officer, Quantum
Stephen Munday	Chief Financial Officer
Melanie Leydin	Company Secretary

6.5 Core values

The existing values of Quantum and Paragon are similar, with an emphasis on safety, delivering results for their customers, accountability and responsibility. Following the Implementation of the Merger, the board and the senior management team of the Merged Group will agree on the values of the Merged Group moving forward to ensure that a high standard of corporate governance practice is followed and that an inclusive and safe workplace culture is maintained in the Merged Group.

6.6 Paragon intentions if the Scheme is Implemented

This Section outlines Paragon's current intentions in relation to Quantum, Paragon and the Merged Group if the Scheme is Implemented.

The statements of intention in this Section have been formed on the basis of facts and information concerning Quantum and the general business environment which are known to Paragon as at the date of this Scheme Booklet.

Final decisions on these matters will only be made by the Paragon Board in light of all material information, facts and circumstances at the relevant time if the Scheme is Implemented. Accordingly, it is important to recognise that the statements set out in Section 6.6 are statements of Paragon's current intentions only, which may change as new information becomes available or circumstances change, and which will be superseded by the intention, strategic focus, outlook and decisions of the Paragon Board.

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6.6.1 *Operations of the Merged Group*

If the Scheme is Implemented, Paragon intends to continue to operate the businesses of Quantum and Paragon in a similar manner as they are currently operating.

Paragon will continue to review the Merged Group's operations covering strategic and financial matters to determine and implement improvements to deliver the optimal outcomes for the Merged Group. Subject to the strategic and financial review, it is the current intention of Paragon that there will be no major changes to the Quantum business and there will be no redeployment of the fixed assets of Quantum.

6.6.2 *Head office*

Subject to the strategic and financial review, Paragon has no present intention to change the location of Quantum's head office from Sydney.

6.6.3 *Board of Quantum*

If the Scheme is Implemented, the Quantum Board will be reconstituted with Paragon nominees. As at the date of this Scheme Booklet, no determinations have been made by Paragon as to the reconstitution of the Quantum Board.

6.6.4 *Employees of the Merged Group*

Subject to the statements made about existing members of the Quantum Board and the strategic and financial review, Paragon expects to be able to provide continued employment to Quantum's existing workforce in order to deliver on this future growth potential. In particular, Paragon does not currently have any intention to change the terms of Mr Walstab's employment.

6.6.5 *Financing*

As at the date of this Scheme Booklet, Paragon is continuing to assess the optimal financing arrangements for the Merged Group. No decision has been made on which financing arrangements (if any) of Quantum will remain in place following Implementation.

6.6.6 *Corporate matters in relation to Quantum*

If the Scheme is Implemented, it is intended that current Quantum Shares will cease to be quoted on the ASX shortly after the Implementation Date and Paragon will procure that Quantum applies to the ASX to be removed from the official list of the ASX after Implementation. Quantum will become a wholly-owned Subsidiary of Quantum and Paragon's corporate structure is otherwise expected to remain largely intact.

6.6.7 *Dividends and dividend policy*

It is intended the Merged Group will be governed by Paragon's current dividend policy, as described in Section 5.8.

6.6.8 *Corporate governance*

It is intended the Merged Group will be governed by Paragon's current corporate governance policies and practices, as described in Section 5.1.5.

A copy of these policies and Paragon's 2021 Corporate Governance Statement can be accessed on Paragon's website at https://paragoncare.com.au/corporate-governance.

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6.7 Pro-forma capital structure and financials

This Section contains pro-forma historical financial information in relation to the Merged Group (the **Merged Group Pro-Forma Historical Financial Information**) comprising:

- Merged Group historical income statements as at 30 June 2021 (**Merged Group Pro-Forma Historical Income Statements**);
- Merged Group historical statement of financial position as at 30 June 2021 (**Merged Group Pro-Forma Historical Statement of Financial Position**); and
- Merged Group historical statements of cash flows as at 30 June 2021 (**Merged Group Pro-Forma Historical Cash Flow Statements**).

In this Scheme Booklet. references to Merged Group Pro-Forma Historical Financial Information are references to the pro-forma historical financial information of the Merged Group during the relevant period or at the relevant time, being the corporate group that will be formed as it will exist immediately following Implementation of the Scheme.

References to Merged Group Pro-Forma Historical Financial Information refers to the Merged Group on an aggregated basis.

The Merged Group Pro-Forma Historical Financial Information should be read together with the:

(a) basis of preparation as set out below;

(b) risk factors set out in Section 7; and

(c) other information contained in this Scheme Booklet.

The financial information in this Section is presented in an abbreviated form and does not contain all presentation, comparatives and disclosures that are usually provided in an annual financial report prepared in accordance with the Corporations Act.

6.7.1 Basis of preparation

The Merged Group Pro-Forma Historical Financial Information has been prepared for illustrative purposes, in order to give Quantum Shareholders an indication of the financial performance and cash flows of the Merged Group as if the Scheme had been implemented prior to the beginning of the year ended 30 June 2021 and the financial position of the Merged Group as if the Scheme had been implemented as at 30 June 2021. By its nature, pro-forma historical financial information is illustrative only. Consequently, it does not purport to reflect the actual financial performance, financial position or cash flows of the Merged Group as if it had operated on a combined basis for the relevant periods. Past performance is not a guide to future performance.

The Merged Group Pro-Forma Historical Statement of Financial Position and Merged Group Pro-Forma Historical Income Statement and Merged Group Pro-Forma Historical Cash Flows for the year ended 30 June 2021 have been derived from:

(a) Paragon's 2021 Annual Report

(b) Quantum's 2021 Annual Report; and

(c) pro-forma adjustments described in Section 6.7.2 below.

Paragon's Annual and Half Year Financial Reports are available from the ASX website at www2.asx.com.au and Paragon's website at https://Paragoncare.com.au/. The Paragon Historical Financial Information presented in this Section 6 has been derived from consolidated financial statements of Paragon for the financial year ended 30 June 2021. The

consolidated financial statements of Paragon for the financial year ended 30 June 2021 were audited in accordance with the Australian Auditing Standards.

Quantum's Annual Financial Report is available from the ASX website at www2.asx.com.au and the Quantum's website at https://qhealthcare.com.au/. The Quantum Historical Financial Information presented in this Section 6 has been derived from the consolidated financial statements of Quantum for the financial year ended 30 June 2021. The consolidated financial statements of Quantum for the financial year ended 30 June 2021 were audited in accordance with the Australian Auditing Standards.

The Merged Group Pro-Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in the Australian Accounting Standards and reflect the impact of certain transactions as if they occurred as at 30 June 2021 in the Merged Group Pro-Forma Historical Statement of Financial Position and from 1 July 2020 in the Merged Group Pro-Forma Historical Income Statement and the Merged Group Pro-Forma Historical Cash Flows. The Merged Group Pro-Forma Historical Financial Information has been prepared in accordance with and should be read in conjunction with the accounting policies detailed in Paragon's 2021 Annual Report. An assessment has been undertaken by Paragon to identify significant accounting policy differences where the impact is potentially material to the Merged Group and could be reliably estimated. No material differences have been identified.

6.7.2 Pro-forma adjustments overview

The Merger has been evaluated in accordance with the criteria in AASB 3: Business Combinations (**AASB3**) as an acquisition of Quantum by Paragon for accounting purposes. As a result of the Merger, the existing shareholders of Paragon will continue to hold the majority of the voting rights in Paragon so this has not been accounted for as a reverse acquisition by Quantum Shareholders.

The Merger falls within the scope of AASB3, and the principles of acquisition accounting have been apply except as follows:

- For the purposes of the Merged Group Pro-Forma Historical Statement of Financial Position, the Merger will be accounted for using the carrying values of the net assets of the respective entities as at 30 June 2021, as if the Merger had occurred as at that date.
- As such, the carrying value of net assets are show as their book values as per each entities financial statements as at 30 June 2021, adjusted as described below to record the transaction and then eliminate subsidiary acquired equity on consolidation as at 30 June 2021.

The Merged Group Pro-Forma Historical Financial Information includes the following pro-forma adjustments to reflect the impact of certain transactions as if they occurred as at 30 June 2021 in the Merged Group Pro-Forma Historical Statement of Financial Position and as at 1 July 2020 in the Merged Group Pro-forma Historical Income Statement and Merged Group Pro-Forma Historical Cash Flow to:

- reclassify certain amounts in Quantum's Historical Income Statement and Statement of Cash Flows for the 12 months ended 30 June 2021 for consistent presentation of the Merged Group; and
- reflect accounting for the acquisition of Quantum in the Merged Group Pro-Forma Historical Statement of Financial Position.

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6.7.3 Items not reflected in the Merged Group Pro-Forma Historical Financial Information

As detailed above, the Merged Group Pro-Forma Historical Financial Information presented in this Section 6 does not purport to reflect the actual or prospective reported financial performance, financial position or cash flows of the Merged Group.

It is likely that the actual financial performance, financial position or cash flows of the Merged Group in future periods will differ from the Merged Group Pro-Forma Historical Financial Information presented in this Section 6. The factors which may impact the actual financial performance, financial position or cash flows of the Merged Group include but are not limited to:

- trading of Quantum and Paragon after 30 June 2021, which is not reflected in the historical financial information of Quantum and Paragon;
- the risks set out in Section 7, including any financial impact of COVID-19;
- the ultimate timing of the Implementation Date;
- determination of acquisition accounting treatment under AASB3;
- finalisation of the resetting of tax cost bases of Paragon following Implementation, including recognition of deferred tax assets and liabilities, in accordance with the relevant accounting standards;
- the impact of Paragon and/or Quantum tax losses which may be available to the Merged Group;
- transaction costs incurred by Quantum and Paragon in relation to the Scheme; and
- current and future changes to applicable accounting standards.

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6.8 Merged Group Pro-Forma Historical Income Statement

A$'000	Paragon	Quantum	Elimination	Merged Group
Revenues from Continuing Operations	235,840	55,113	-	290,953
Cost of Sales	(145,527)	(26,653)	-	(172,180)
Gross Profit	**90,313**	**28,460**	**-**	**118,773**
Employee Benefit Expense	(47,226)	(11,421)	-	(58,647)
Occupancy Expense	(1,398)	(147)	-	(1,545)
Marketing Expenses	(911)	(485)	-	(1,396)
Distribution Expense	(6,331)	(673)	-	(7,004)
Other Operating Expenses	(10,937)	(5,915)	-	(16,852)
Currency Translation Gain(Loss)	-	340	-	340
Other Income	1,490	558	-	2,048
Fair Value Gain/(loss) on Financial Assets	1,525	99	-	1,624
Depreciation and Amortization	(6,200)	(1,541)	-	(7,741)
Interest Revenue	18	-	-	18
Finance Costs	(8,012)	(701)	-	(8,713)
Profit/(loss) before income tax (expense)/benefit from continuing operations	**12,331**	**8,574**	**-**	**20,905**
Income Tax Expense	(4,052)	(864)	-	(4,916)
Profit/(loss) after income tax (expense)/benefit from continuing operations	**8,279**	**7,710**	**-**	**15,989**
Loss after income tax benefit from discontinued operations	-	-	-	-
Profit/(loss) after income tax (expense)/benefit to the owners	**8,279**	**7,710**	**-**	**15,989**
Other Comprehensive Income				
Foreign currency translation	(196)	-	-	(196)
Translation of foreign subsidiaries (loss) / gain	-	(1,403)	-	(1,403)
Cash flow hedges transferred to profit or loss, net of tax	1,085	-	-	1,085
Actuarial gain on post-employment benefit obligations	-	40	-	40
Total Comprehensive income attributable to the owners	**9,168**	**6,347**	**-**	**15,515**

6.8.1 Pro-Forma EBITDA

Paragon believes that the pro-forma historical EBITDA for the Merged Group for the financial year ended 30 June 2021 is relevant to Quantum Shareholder's consideration of the merits of the Merger and have accordingly set out below this information, noting that EBITDA has not historically been reported in the income statements for either Paragon or Quantum.

EBITDA for Paragon and Quantum for the financial year ended 30 June 2021 has been calculated as follows:

- **Paragon:** EBITDA is the 'Profit / (loss) before income tax (expense) / benefit from continuing operations' from the Paragon historical income statement for the year ended 30 June 2021, but excluding the following line items:
    - Depreciation and Amortization;
    - Interest Revenue; and
    - Finance Costs.

- **Quantum**: EBITDA is the 'Profit / (loss) before income tax (expense) / benefit from continuing operations' from the Quantum historical income statement for the year ended 30 June 2021, but excluding the following line items:
  - Depreciation and Amortization;
  - Interest Revenue; and
  - Finance Costs.

A$'000	Paragon	Quantum	Elimination	Merged Group
EBITDA	26,525	10,816	-	37,341

6.8.2 Consolidation Adjustments

There are no adjustments necessary to reflect the impact of the consolidation because Quantum and Paragon did not have any intercompany transactions in the year ended 30 June 2021.

6.8.3 Items not reflected in the Merged Group Pro-Forma Historical Income Statement

The Merged Group Pro-Forma Historical Income Statement has not been adjusted to reflect:

- trading of Quantum and Paragon after 30 June 2021;
- the risks set out in Section 7 including any financial impact of COVID-19;
- the ultimate timing of the Implementation Date;
- any impact from the finalisation of the resetting of tax costs bases of Paragon following Implementation, including recognition of deferred tax assets and liabilities, in accordance with the relevant accounting standards;
- the impact of Paragon and/or Quantum tax losses which may be available to the Merged Group; and
- current and future changes to applicable accounting standards.

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6.9 Merged Group Pro-Forma Historical Statement of Financial Position

A$'000	Paragon	Quantum	Elimination	Merged Group
Cash and Cash Equivalents	33,197	11,945		45,142
Trade and Other Receivables	26,201	14,842		41,043
Income Tax Refund Due	407	-		407
Inventories	51,578	8,147		59,725
Financial Assets	416	1,176		1,592
Other Current Assets	1,413	4,499		5,912
Current Assets	113,212	40,609	-	153,821
Right of Use Assets	9,032	668		9,700
Property, Plant and Equipment	7,464	1,137		8,601
NC Financial Assets	-	2,283		2,283
Other Non-Current Assets	-	1,657		1,657
Investment Property	-	2,338		2,338
Defined-benefit Plans (A)	-	44		44
Deferred Tax	10,838	3,078		13,916
Intangibles Assets	151,374	22,591	37,047	211,012
Non-Current Assets	178,708	33,796	37,047	249,551
Trade and Other Payables	(36,100)	(11,102)		(47,202)
Employee Benefits (Current)	(4,901)	-		(4,901)
Borrowings (Current)	(21,794)	(7,277)		(29,071)
Lease Liabilities (Current)	(3,648)	(499)		(4,147)
Derivative Financial Instruments (L)	(3,047)	-		(3,047)
Provision for Income Tax	-	(839)		(839)
Other Current Liabilities	(12,720)	-		(12,720)
Contract Liabilities (Current)	-	(3,918)		(3,918)
Short-term Provisions	-	(2,597)		(2,597)
Current Liabilities	(82,210)	(26,232)	-	(108,442)
Borrowings (Non-Current)	(80,471)	(74)		(80,545)
Lease Liabilities (Non-Current)	(7,098)	(106)		(7,204)
Contract Liabilities (Non-Current)	-	(121)		(121)
Employee Benefits (Non-Current)	(623)	(113)		(736)
Other Payables (Non-Current)	-	(484)		(484)
Non-Current Liabilities	(88,192)	(898)	-	(89,090)
Net Assets	121,518	47,275	37,047	205,840
Common Stock - Par Value	(113,952)	(17,452)	(61,512)	(192,916)
Retained Earnings/accumulated losses	-	(22,958)	22,958	-
Reserves	(7,566)	(1,507)	1,507	(7,566)
Minority Interest	-	(5,358)		(5,358)
Total Equity	(121,518)	(47,275)	(37,047)	(205,840)

6.9.1 Consolidation Adjustments

These adjustments reflect the impact of the consolidation. Quantum and Paragon did not have any intercompany transactions in the year ended 30 June 2021. The outline and table below reflects the provisional estimated accounting for the Merger with Quantum based on the provisional amounts shown in the following section.

The accounting for the acquisition of Quantum reflects the:

- elimination of pre Merger contributed equity of Quantum of $17.452 million;

- elimination of pre Merger retained earnings and reserves of Quantum of $22.958 million and $1.507 million respectively; and
- recognition of estimated equity consideration of $78.964 million on the issuance of the Paragon Shares.

Number of new Paragon Shares	#	274,178,915
Paragon Offer Price	A$	0.288
Consideration to be allocated	A$000s	78,964

6.9.2 Items not reflected in the Merged Group Pro-Forma Historical Statement of Financial Position

The Merged Group Pro-Forma Historical Statement of Financial Position has not been adjusted to reflect:

- trading of Quantum and Paragon after 30 June 2021
- the risks set out in Section 7 including any financial impact of COVID-19
- the ultimate timing of the Implementation Date and finalisation of the resetting of tax cost bases of Paragon following Implementation, including recognition of deferred tax assets and liabilities, in accordance with the relevant accounting standards;
- the impact of Paragon and/or Quantum tax losses which may be available to the Merged Group; and
- current and future changes to applicable accounting standards

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6.10 Merged Group Pro-Forma Historical Cash Flows

	Paragon	Quantum	Elimination	Merged Group
Cash flows from operating activities				
Receipts from customers (inclusive of GST)	264,516	65,098	-	329,614
Payments to suppliers and employees (inclusive of GST)	(232,509)	(57,457)	-	(289,966)
Government Assistance received (JobKeeper subsidy)	2,985		-	2,985
Other Income	1,413		-	1,413
Interest Received	18	72	-	90
Interest and other finance costs paid	(8,012)	(287)	-	(8,299)
Income Taxes Refunded / (paid)	(948)	(402)	-	(1,350)
Net Cash from operating activities	27,463	7,024	-	34,487
Cash flows from investing activities				
Proceeds from sales of property, plant and equipment	-	19	-	19
Payment for vendor earn out of prior business acquisitions	(15,331)		-	(15,331)
Payments for property, plant and equipment	(3,327)	(174)	-	(3,501)
Payments for acquisition of investment	-	-	-	-
Payments for financial assets	-	(687)	-	(687)
(Payment) / proceeds from (purchase) / sale of financial assets		(615)	-	(615)
Payments for intangibles	(1,959)		-	(1,959)
Payments for security deposits	(134)		-	(134)
Proceeds from disposal of property, plant and equipment	1,948		-	1,948
Net cash used in investing activities	(18,803)	(1,457)	-	(20,260)
Cash flows from financing activities				
Proceeds from borrowings (net)	4,140		-	4,140
Repayment of borrowings (net)	(801)	(1,552)	-	(2,353)
Repayment of lease liabilities	(3,307)	(835)	-	(4,142)
Net cash used in financing activities	32	(2,387)	-	(2,355)
Net increase/(decrease) in cash and cash equivalents	8,692	3,180	-	11,872
Cash and cash equivalents at the beginning of the financial year	24,505	8,765	-	33,270
Cash and cash equivalents at the end of the financial year	33,197	11,945	-	45,142

6.10.1 Consolidation Adjustments

There are no adjustments necessary to reflect the impact of the consolidation because Quantum and Paragon did not have any intercompany transactions in the year ended 30 June 2021.

6.10.2 Items not reflected in the Merged Group Pro-Forma Historical Statement of Cash Flows

The Merged Group Pro-Forma Historical Statement of Cash Flows has not been adjusted to reflect:

- the operating cash flows of Quantum and Paragon after 30 June 2021;
- the risks set out in Section 7, including any financial impact of COVID-19;
- the ultimate timing of the Implementation Date;

- the impact of Paragon and/or Quantum tax losses which may be available to the Merged Group; and
- transaction costs incurred by Quantum and Paragon in relation to the Scheme.

6.11 Financial forecasts

The Paragon Board has given careful consideration as to whether a reasonable basis exists to produce reliable and meaningful forecast financial information in relation to the Merged Group. The Paragon Board has concluded that such forecast financial information would have the potential to be misleading and a reasonable basis does not exist for producing forecasts that would be sufficiently meaningful and reliable to be of value to either set of shareholders.

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7 Risk factors

7.1 Introduction

The Scheme presents a number of potential risks that Quantum Shareholders should consider when deciding how to vote on the Scheme.

Quantum Shareholders are currently exposed to various risks as a result of their investment in Quantum. If the Scheme proceeds, Quantum will become a Subsidiary of Paragon (forming the Merged Group), and Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive shares in Paragon. As a consequence, those Quantum Shareholders who receive shares in Paragon will be exposed to certain additional risks relating to Paragon and the integration of the Quantum, Paragon and their respective corporate groups, many of which will be beyond the control of the Merged Group. In a number of cases, those risks are different from, additional to or greater than, those faced by Quantum Shareholders currently. This change in risk profile may be perceived as a disadvantage by some Quantum Shareholders.

This Section 7 discusses the risk factors relating to Quantum, Paragon and, if the Scheme proceeds, the Merged Group. These risks include risks relating to:

(a) the Quantum Group and its existing business;

(b) the Paragon Group and its existing business;

(c) if the Scheme proceeds, the combination of Quantum and Paragon to create the Merged Group;

(d) general investment risks; and

(e) risks if the Scheme does not proceed.

7.2 Qualifications and limitations

This Section 7 provides a summary of some of the key risks, although it does not contain a complete and exhaustive list of investment in the Merged Group.

While Quantum and Paragon have in place a number of strategies to minimise the exposure to, or mitigate the effects of, some of these risks, there can be no assurance that such arrangements will protect Quantum or Paragon or the Merged Group. In addition, certain risks will remain outside the control of each of Quantum and Paragon.

This Scheme Booklet does not take into account the investment objectives, financial situation, or the particular needs or risk profiles of individual Quantum Shareholders. You should carefully consider the following risks, as well as the other information contained in this Scheme Booklet, and seek independent professional advice before deciding on whether to vote on the Scheme.

7.3 Merged Group risks

The following risks are relevant to each of Quantum and Paragon as standalone entities, unless otherwise indicated. Accordingly, they will also be relevant to the Merged Group after Implementation.

7.3.1 *Sustainability and growth*

The growth in sales and profitability of the Merged Group will be dependent on a number of factors, including:

(a) the products released by the Merged Group's suppliers;

(b) government medical funding and general investment in the medical industry;

(c) government and private insurance reimbursement;

(d) aging population demographics;

(e) global supply chain capacity; and

(f) impact of climate change.

Customer revenue growth is particularly dependent upon the competitiveness of the products sold by the Merged Group. If these growth factors were to be impaired, the financial performance and reputation of Merged Group would be adversely affected.

7.3.2 ***Loss of key relationships***

The medical industry is undergoing rapid growth and substantial change, which has resulted in increasing consolidation and formation of strategic relationships. This could harm Quantum and Paragon in a number of ways, including:

(a) loss of strategic relationships if third parties with whom Quantum and Paragon have arrangements are acquired by or enter into relationships with a competitor (which could cause Quantum and Paragon to lose access to necessary resources);

(b) the relationship between Quantum and Paragon and third parties may deteriorate and have an adverse impact on their respective businesses; and

(c) Quantum's and Paragon's current competitors could become stronger, or new competitors could form, from consolidations.

Any of these events could put Quantum and Paragon at a competitive disadvantage, which could cause Quantum and Paragon to lose access to key partners and markets. Consolidation could also force Quantum and Paragon to expend greater resources to meet new or additional competitive threats, which could also harm the Merged Group's financial performance.

7.3.3 ***Reliance on key suppliers***

The ability for Quantum and Paragon to distribute products to their customers is dependent on securing products from third party suppliers.

If suppliers fail to supply the products or terminate the contracts connected with the supply of products (or allow them to expire without renewing them), there could be a disruption to the Merged Group's business as well as additional costs.

There is also a risk that new supply contracts will be on terms less favourable than those currently in place. Any of these factors could have a material adverse impact on the Merged Group's profitability and financial position, and therefore negatively impact the price of Paragon Shares.

In addition, certain supply agreements with suppliers may contain provisions which allow the supplier to increase its prices periodically. There is a risk that a distribution agreement entered into with one or more of Quantum's and Paragon's key suppliers could be amended with respect to pricing as a result of the supplier exercising its rights under these provisions, and Quantum and Paragon may be unable to pass on these price increases to its customers.

7.3.4 ***Supply chain risk***

Any material disruption to Quantum's or Paragon's supply chains will have a significant impact on the Merged Group's business and impair its ability to provide products and services to its customers, which in turn may cause a decline in the price of Paragon Shares.

In addition, there is a risk that production downtime and structural or mechanical integrity of facilities, technical equipment or machinery used by contracted parties may cause

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bottlenecks in the supply chain impacting market supply which could adversely affect Quantum's and Paragon's reputations.

7.3.5 ***Malfunction, recall or other issues associated with the products supplied by Quantum and Paragon***

If a product that Quantum or Paragon supplies is subject to a product liability issue or product recall due to a deficiency in the product, this is likely to have an adverse impact on Quantum and Paragon and their respective businesses, including

(a) a loss of customer trust in the relevant brand that may result in reduced revenues;

(b) the removal of that product from Quantum's and Paragon's sales while the issue is resolved which, if Quantum and Paragon derive a material amount of revenue from that particular product, may adversely impact Quantum's and Paragon's future financial performance; and

(c) damage to Quantum's and Paragon's reputation.

7.3.6 ***Competition***

The markets for the provision of health related goods and services in which both Quantum and Paragon operate are subject to vigorous competition. These markets include businesses with greater financial, technical, human, research and development and marketing resources than Quantum and Paragon combined. Healthcare businesses generally compete with one another on factors such as price, quality and range.

Following Implementation, the competitive position of the Merged Group may deteriorate as a result of factors including, actions by existing competitors, the entry of new competitors, or a failure by the Merged Group to meet changing market conditions including price-based competition, patient and client demands, or changes in the regulatory environment.

Any deterioration in the Merged Group's competitive position may result in a decline in revenue and margins, and a loss of market share. In addition, Quantum and Paragon's current and future technologies and products may become obsolete or uncompetitive. This may have a material adverse effect on the Merged Group's financial and operating performance and may reduce the Merged Group's ability to achieve its strategic objectives.

7.3.7 ***The level of private health insurance coverage or membership rates***

Quantum and Paragon provide goods and services that rely on private insurers as a source of funding. A decrease in the levels of private health insurance coverage or reduction in general private health insurance membership rates (for example as a result of economic downturn or increasing policy costs), may reduce the demand for these goods and services, which has the potential to negatively impact the Merged Group's financial performance and profitability.

7.3.8 ***Loss of key personnel***

Oversight of day-to-day operations and the strategic management of both Quantum and Paragon are substantially dependent upon their existing management and key personnel. Whilst these key personnel have service agreements, no assurance can be given that there will be no detrimental impact on the Merged Group if one or a number of these key personnel cease their employment or involvement with the Merged Group. As mentioned in Section 7.4.5 below, the risk of loss of personnel is heightened by the Merger.

The future success of the Merged Group is also dependent upon its continuing ability to attract and retain highly qualified personnel. If there is a departure of key employees during Implementation, or as a result of the Scheme, the Merged Group's business could be adversely affected. The Merged Group may have to incur significant costs in identifying,

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hiring and retaining replacements for departing employees and may lose significant expertise and talent relating to the business.

Certain key executives and other employees of Quantum and Paragon and their respective Subsidiaries, may terminate their management positions or their employment contracts on their own initiative or that of the Merged Group as a result of the Scheme. If members of the Merged Group's senior management depart, the Merged Group may not be able to find effective replacements in a timely manner, or at all, and its business may be disrupted.

7.3.9 ***Changes in technology***

The medical equipment, devices and consumables market is evolving rapidly with frequent introduction of new technologies, products and innovations. Consumer behaviours, preferences and trends are also constantly changing. The Merged Group must therefore evolve and adapt its product and service offerings to maintain pace with the industry in which it operates and to maintain its competitive position. Given the pace of change, there is no guarantee that the Merged Group will be able to continue to introduce new and superior products, or products that are perceived to be new and superior by consumers, at the rate seen by other competitors in the market generally. The Merged Group's ability to do so is constrained by factors including its available capacity, resources and capital to invest in product development, innovation and design. This may adversely impact on the Merged Group's long and short term business performance.

7.3.10 ***Change in legislation, government policy, regulation, declines in government funding and price***

Quantum and Paragon operate in highly regulated industries and are subject to a range of laws, regulations and government policies relating to, among other things, government funding, operations conduct and facilities licensing.

Although a shift in government funding may be of future benefit to the Merged Group, there are also a number of associated risks which may arise as a result of a change in government policy or regulation as a result of budget deficits, political shifts, economic conditions or any other reasons outside of the Merged Group's control and which may have a material adverse impact on the Merged Group's future operational and financial performance. Risks associated with changes in government policies and regulations in relation to Merged Group's business include (but are not limited to):

(a) changes to the regulation surrounding the private health insurance take-up incentive model;

(b) changes to government incentive programs in Australia and overseas, including any related to medical services;

(c) changes to the Medicare regime, including any reductions of Medicare rebates for Quantum or Paragon services;

(d) changes to funding and legislative structure of the National Disability Insurance Scheme; and

(e) changes to the licensing systems for the businesses and facilities in the markets in which the Merged Group will operate; and

The nature, timing and impact of future government policy and regulatory changes are not predictable and beyond the Merged Group's control.

Failure by the Merged Group to comply with applicable laws, regulations, professional standards and accreditation may lead to enforcement actions that disrupt the Merged Group's operations and result in it being subject to fines, penalties and damages.

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7.3.11 ***Information technology systems***

Both Quantum and Paragon are, and the Merged Group will be, dependent on technology for the delivery of the various goods and services they provide to customers. Any information technology systems are potentially vulnerable to interruption or damage from a number of sources, including:

(a) computer viruses, cyber security attacks and other security breaches;

(b) power, systems, internet and data network failures; and

(c) natural disasters.

Should the Merged Group's systems not be adequately maintained, secured or updated, or the Merged Group's disaster recovery processes not be adequate, any interruption or damage to the Merged Group's systems may be more likely, prolonged and pronounced. A breach of the Merged Group's cyber security defences could result in data and records being compromised or other negative outcomes that may harm the Merged Group's reputation or result in financial loss.

7.3.12 ***Privacy and data security***

The protection of customer, employee, third party and company data is critical to both Quantum's and Paragon's operations. The legal and regulatory environment surrounding information security and privacy is increasingly complex and demanding. Customers, employees and third parties such as suppliers also have an expectation that Quantum and Paragon will adequately protect their personal information. A breach of customer, employee, third party or company data could attract significant media attention, damage the Merged Group's reputation and customer or supplier relationships, and ultimately result in lost sales, legal or regulatory liability or litigation. This could have a material adverse effect on the Merged Group's future financial position, performance and prospects.

7.3.13 ***Reputation risk***

The ability to maintain the reputation of the Merged Group is critical to its ongoing financial performance. The Merged Group's reputation could be jeopardised if it fails to:

(a) maintain high standards for service quality;

(b) comply with all applicable laws and regulations;

(c) comply with accepted practices;

(d) maintain an effective system of internal controls; or

(e) provide accurate and timely financial information.

Such failures may result in negative publicity and may reduce the demand for the Merged Group's products and services. Any damage to the Merged Group's reputation could have a material adverse effect on customer loyalty, relationships with medical professionals, employee retention rates and demand for the Merged Group's goods and services, all of which could adversely affect the Merged Group's operations, financial condition and performance.

7.3.14 ***Product liability***

The importation and distribution of capital equipment items and consumables for the healthcare sector entail an inherent risk of allegations of product liability. The Merged Group may, from time to time, experience product defects, recalls or other claims relating to its products or services. Defects in products that the Merged Group markets, sells or distributes could be difficult or costly to correct, cause significant customer relations and business reputation problems, harm the Merged Group's financial results and result in damage to or

claims by its customers. Any such claim could also result in increased challenges in obtaining insurance on comparatively reasonable terms.

7.3.15 ***Litigation and claims***

In the course of its operations, the Merged Group may be involved in disputes, including through industry complaints schemes, litigation and investigations, whether by regulatory bodies or other third parties. Litigation, disputes and investigations may be with or without merit. The costs of defending and resolving such claims and proceedings can be substantial, even with respect to claims which have no merit. A risk exists that material or costly disputes, litigation or investigations could affect the financial performance of the Merged Group and the price or value of Paragon Shares. There is also a risk that the Merged Group's reputation may suffer due to the profile of, and public scrutiny surrounding, any regulatory investigation, litigation or dispute, regardless of the outcome.

7.3.16 ***Contract risk***

There is a risk that counterparties to contracts with Quantum, Paragon or their respective Subsidiaries (including customers) may fail to meet their contractual obligations resulting in loss to the Merged Group and impacting on the Merged Group's business relationships and operations. There can be no guarantee that these counterparties will fulfil their contractual obligations or that the Merged Group will successfully manage counterparty risk (including credit risk). The failure of the counterparties to meet their obligations to the Merged Group may adversely impact on the Merged Group's revenue, financial position, performance and prospects, and in turn, the price of Paragon Shares following Implementation.

Some contracts to which Quantum, Paragon or their respective Subsidiaries are party may contain change of control or deemed assignment provisions that could be triggered by the Merger (including by entry into the Scheme Implementation Deed, Implementation or changes to the composition of the board of directors of either entity). If such a provision is triggered, this may allow the counterparty to review, adversely modify, exercise rights under or terminate the contract. If a counterparty to any such contract were to do so, this may have an adverse effect on the Merged Group, depending on the relevant contract.

7.3.17 ***Servicing existing debt***

The Merged Group's ability to service its existing debt depends upon its financial performance and cash flows which to some extent are subject to general economic, financial, regulatory and other factors beyond the control of the Merged Group. If the Merged Group is unable to generate sufficient cash flow to meet specific debt repayment obligations, it may face additional financial penalties, higher interest rates or difficulty obtaining further funding in the future.

7.3.18 ***Ability to refinance existing debt and access debt and equity capital markets***

The Merged Group is subject to the risk that it may not be able to refinance its bank facilities when they fall due or that the terms (including in relation to pricing) on refinancing will be less favourable than the existing terms. If there is a deterioration in the level of debt market liquidity, this may prevent the Merged Group from being able to refinance some or all of its debt.

In addition, the Merged Group may in the future require additional debt or equity capital in order to fund growth strategies, in particular for acquisition opportunities that may arise from time to time. There is a risk that the Merged Group may become unable to access debt or equity funding from the capital markets on favourable terms, or at all.

7.3.19 ***Currency risk***

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the primary currency of a business.

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Quantum's business operations are conducted in Asia and Australia. Quantum makes purchases in foreign currencies such as US dollars (USD), euros (EURO) and Chinese yuan (CNY) and receives the majority of its revenue in Australian dollars (AUD), New Zealand Dollars (NZD), South Korean won (KWON) and Thai baht (TBAHT), however, Quantum's functional currency is Australian dollars. Quantum is therefore exposed to foreign exchange risk arising from movements in exchange rates.

Paragon undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency.

Paragon's current operations are primarily in Australia and New Zealand. Paragon makes purchases in foreign currencies such as US dollars (USD) and euros (EURO) and receives the majority of its revenue in Australian dollars (AUD) and New Zealand dollars (NZD), however, Paragon's functional currency is Australian dollars. Paragon is therefore exposed to foreign exchange risk arising from movements in exchange rates.

7.3.20 ***Insurance***

Both Quantum and Paragon seek to maintain appropriate policies of insurance consistent with those customarily carried by organisations in their industry sector. However, some liabilities could exceed policy limits or certain risks could be excluded. The Merged Group may also decide not to insure against certain risks due to various commercial considerations. Any future increase in the cost of such insurance policies or the inability to purchase adequate policy limits and coverage could adversely affect the Merged Group's business, financial condition and operational results.

7.3.21 ***Inability to pay dividends***

The payment of dividends (if any) by Paragon following Implementation will be determined by the Paragon Board from time to time at its discretion, and will be dependent upon factors including the profitability and cash flow of the Merged Group's business at the relevant time. Further information about Paragon's proposed dividend policy is set out in Section 6.6.7 of this Scheme Booklet.

7.3.22 ***Shareholder dilution***

While Paragon does not currently have any planned offerings of securities, and does not expect to require any equity funding in the near term, Paragon may undertake offerings of securities in the future. The increase in the number of securities may have the effect of depressing the price of Paragon Shares.

In addition, the issue of additional securities by Paragon may result in the dilution of the voting rights of existing holders of Paragon Shares (which will include Scheme Shareholders following Implementation).

7.3.23 ***Intellectual property***

The Merged Group will hold various intellectual property, trademarks and other rights which are inherently at risk of infringement by third parties. Failure by the Merged Group to protect these rights could impact the value of these rights, the Merged Group's ability to maintain customer recognition and the risk of confusion between Quantum, Paragon and third parties.

7.4 Specific risks relating to the Scheme and the creation of the Merged Group

7.4.1 Conditions precedent must be satisfied or waived

Implementation is subject to a number of conditions precedent as set out in clause 2 of the Scheme Implementation Deed. There can be no certainty that these conditions precedent will be satisfied or waived (where applicable), or if satisfied or waived (where applicable),

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when that will occur. In addition, several of the conditions precedent to Implementation are beyond the control of Quantum and Paragon, including, but not limited to, approval of the Scheme by the Requisite Majorities of Quantum Shareholders and the Court.

If for any reason the conditions precedent to the Scheme are not satisfied or waived (where applicable) and the Scheme is not completed, the market price of Quantum and Paragon Shares may be adversely affected.

7.4.2 ***Court approval and delays***

There is a risk that the Court may not approve the Scheme or that Court approval may be delayed. If there is a material change in circumstances between the date of this Scheme Booklet and the Second Court Date then, depending on the nature and timing of the change in circumstances, Quantum may be required to issue a supplementary document to this Scheme Booklet resulting in delays to the indicative timetable. Further, if any such changes materially alter the Scheme, the Court may not approve the Scheme at the Second Court Hearing.

7.4.3 ***The Scheme Implementation Deed may be terminated in certain circumstances***

Each of Quantum and Paragon has the right to terminate the Scheme Implementation Deed in certain circumstances as set out in clause 11 of the Scheme Implementation Deed. Accordingly, there is no certainty that the Scheme Implementation Deed will not be terminated by either Quantum or Paragon before the Implementation.

7.4.4 ***Value of Scheme Consideration is not certain***

The implied value of the Scheme Consideration is liable to vary over time depending on the prevailing Paragon Share price, including between the date of this Scheme Booklet, the date of the Scheme Meeting and the date on which the Scheme Consideration is received by Scheme Shareholders.

If the Scheme is implemented, Quantum Shareholders (other than Ineligible Foreign Shareholders) will receive Paragon Shares. The market value of the Paragon Shares to be issued will depend on the price at which Paragon Shares trade on ASX after the Implementation Date.

Paragon has offered 0.243 Paragon Shares for each Quantum Share held under the terms of the Scheme. As this share ratio is fixed, the number of Paragon Shares to be received by Quantum Shareholders in the context of the Scheme will remain unchanged even if the market value of Paragon Shares differs relative to the pre-Implementation market values of Paragon Shares and Quantum Shares.

No adjustment will be made to such ratio due to fluctuations in the market price of Quantum Shares or Paragon Shares. Accordingly, any such fluctuations may adversely affect the market value of the Consideration Shares from time to time.

7.4.5 ***Integration risk and realisation of synergies***

There is a risk that the Merged Group's success and profitability could be adversely affected if Quantum's business is not integrated effectively with Paragon's business. The integration of Quantum's business into Paragon may encounter unexpected challenges or issues.

There is a risk that integration could take longer or cost more than anticipated, including as a result of the COVID-19 pandemic, or that the expected benefits of the Merger may be less than estimated. Any failure to achieve expected benefits may impact on the financial performance and position of the Merged Group and the future price of Paragon Shares. Potential factors that may influence a successful integration include:

(a) possible differences in the management style and culture of Quantum and Paragon;

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(b) unanticipated market conditions;

(c) disruption to the ongoing operations of both businesses;

(d) higher than anticipated integration costs;

(e) difficulty aligning and executing the strategy of the Merged Group including the achievement, and timing of the expected benefits;

(f) unforeseen costs relating to integration of IT platforms, distribution channels, management information systems and financial and accounting systems of both businesses;

(g) changes in regulations, or regulatory conditions imposed in connection with the Scheme, impacting the ability of the Merged Group to use its scale and presence to achieve anticipated benefits; and

(h) unintended loss of key personnel or expert knowledge or reduced employee productivity due to uncertainty arising as a result of the Merger.

7.4.6 ***Accounting risk***

Both Quantum and Paragon, as standalone entities, have particular accounting policies and methods which are fundamental to how they record and report their financial position and results of operations. The Quantum and Paragon Directors may have exercised judgment in selecting accounting policies or methods in respect of Quantum and Paragon (respectively), which might have been reasonable in the circumstances yet might have resulted in reporting materially different outcomes than would have been reported under the other company's policies and methods. The integration of Quantum's and Paragon's accounting functions may lead to revisions of these accounting policies, which may adversely impact on the Merged Group's reported results of operations and/or financial position and performance.

7.4.7 ***Management of growth***

The Merged Group may not be able to effectively manage its continued growth while integrating Quantum into its ongoing operations, which will require, among other things, proper integration and continued development of management information systems, the update of financial and management controls and the training of personnel. Failure to successfully manage these factors simultaneously could have a material adverse effect on both businesses and the value of Paragon Shares.

7.4.8 ***After-market***

If a large number of shareholders in the Merged Group do not intend to continue to hold their Paragon Shares (including, for Quantum Shareholders, those Paragon Shares received as Scheme Consideration) after Implementation and instead choose to sell, there is a risk that the trading price of Paragon Shares will be adversely impacted by such selling.

7.4.9 ***Change in risk and investment profile***

After Implementation, Scheme Shareholders (other than Ineligible Foreign Shareholders) will be exposed to additional risks relating to Paragon and certain additional risks relating to integration of the two businesses to form the Merged Group.

While the operations of Quantum and Paragon are similar in a number of ways, there will be differences between the size, capital structure, infrastructure and clients of the Merged Group, as compared with Quantum currently, meaning that the risk and investment profile faced by Quantum Shareholders will change.

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7.4.10 ***Tax consequences for Scheme Shareholders***

If the Scheme proceeds, there may be tax consequences for Scheme Shareholders. Scheme Shareholders should seek their own professional advice regarding the individual tax consequences of the Scheme.

Further information on the tax consequences of the Scheme is set out in Section 8.

7.5 General risks

7.5.1 Securities market fluctuations

There are various risks associated with investing in any form of business and with investing in listed entities generally. As with any entity listed on the ASX, the value of Quantum Shares and Paragon Shares are influenced by a variety of factors, including macroeconomic factors or broader social occurrences which are beyond Quantum and Paragon's ability to control or predict. The value of Paragon Shares following Implementation will depend upon general share market and economic conditions, which are uncertain and subject to fluctuation, as well as the specific performance of the Merged Group. There is no guarantee of profitability, dividends, return of capital, or the price at which Paragon Shares will trade on the ASX. The past performance of Quantum or Paragon is not necessarily an indication as to future performance as the trading price of shares can go down or up in value.

7.5.2 ***General economic conditions***

The financial performance of the Merged Group and the value of the Paragon Shares may fluctuate due to various factors, including movements in the Australian and international capital markets, recommendations by brokers and analysts, interest rates, exchange rates, inflation, Australian and international economic conditions, change in international economic conditions, change in government, fiscal, monetary and regulatory policies, prices of commodities, global geo-political events and hostilities, global health pandemics and acts of terrorism, investor perceptions and other factors that may affect the Merged Group's financial position and earnings. In the future, these factors may affect the performance of the Merged Group and may cause the price of Paragon Shares to fluctuate and trade below current prices.

In light of recent global macroeconomic events, including the impact of COVID-19, Australia may experience an economic recession or downturn of uncertain severity and duration which could impact the Merged Group's ability to attract and retain customers, to invest sufficiently to develop, adopt and integrate the latest technologies into existing products, and to secure and maintain third party suppliers over whom the Merged Group may have no direct operational or financial control. These economic disruptions may adversely impact the Merged Group's earnings and assets, as well as the value of Paragon Shares.

7.5.3 ***COVID-19***

The COVID-19 pandemic continues to affect global economic markets.

The nature and extent of the effect of the pandemic on the performance of Paragon remains unknown. Paragon's Share price may be adversely affected in the short to medium term by the economic uncertainty caused by COVID-19. Further, any governmental or industry measures taken in response to COVID-19 may adversely impact Paragon's operations and are likely to be beyond the control of Paragon.

As Paragon's workforce are skilled workers with specific expertise, there may be a limited pool of such workers. This risk has been exacerbated by COVID-19 which may, from time to time, require staff to isolate or restrictions are imposed to prevent staff working at multiple sites.

The Paragon Directors are monitoring the situation closely and have considered the impact of COVID-19 on Paragon's business and financial performance. However, the situation is continually evolving, and the consequences are therefore inevitably uncertain.

7.5.4 ***Tax***

A change to the current tax regime may affect Quantum, Paragon or the Merged Group, and Scheme Shareholders.

Any changes to the current rate of company income tax may impact shareholder returns. In addition, any change in tax rules and tax arrangements could have an adverse effect on the level of dividend franking and shareholder returns. Personal tax liabilities are the responsibility of each individual Scheme Shareholder. Quantum, Paragon and the Merged Group are not responsible for tax or penalties incurred by Scheme Shareholders.

7.5.5 ***Change in accounting or financial reporting standards***

The historical financial information has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) and the Corporations Act. Australian Accounting Standards are set by the AASB. Changes to the Australian Accounting Standards issued by the AASB could materially adversely affect the financial performance and position reported in the financial statements of Quantum, Paragon or the Merged Group. Any change in the AAS is beyond the control of Quantum, Paragon or the Merged Group despite potentially having an adverse impact on the Merged Group's reported financial performance.

7.5.6 ***Force majeure events***

Events may occur within or outside Australia that could impact upon the global or Australian economy, the operations of the Merged Group and the price of the Paragon Shares. These events include but are not limited to acts of terrorism, a global health pandemic such as the current COVID-19 pandemic, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events or occurrences that can have an adverse effect on the demand for the Merged Group's services and its ability to conduct business. The Merged Group has only a limited ability to insure against some of these risks.

7.5.7 ***Other risks***

Additional risks and uncertainties not currently known to Quantum or Paragon may also have a material adverse effect on Quantum, Paragon or the Merged Group and the information set out above does not purport to be, nor should it be construed as representing, an exhaustive list of the risks affecting Quantum, Paragon or the Merged Group.

7.6 Risks if the Scheme does not proceed

If the Scheme does not proceed and no other acceptable proposal is received, Quantum will continue on as a standalone basis and Quantum Shareholders will retain their Quantum Shares. In these circumstances the price at which Quantum Shares may trade on the ASX is uncertain.

Quantum Shareholders will remain exposed to the normal risks inherent in the Quantum business if the Scheme and Merger do not proceed.

Further, Quantum will have incurred significant transaction costs in relation to the proposed Scheme even if it does not proceed. These costs may include paying a Break Fee of $1 million (excluding GST) to Paragon in certain circumstances, as set out in Section 3.5.3.

The Quantum Directors believe that the Scheme is likely to deliver benefits to Quantum Shareholders greater than other alternatives which have been considered.

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8 Australian taxation implications of the Scheme

8.1 Introduction

The following is a general description of the Australian tax consequences of the Scheme (assuming it is Implemented) for Scheme Shareholders. It does not constitute tax advice and should not be relied upon as such.

The description is based upon the Australian tax law and administrative practice in effect at the date of this Scheme Booklet. It is general in nature and is not intended to be an authoritative or complete statement of the laws applicable to the particular circumstances of a Scheme Shareholder. Quantum Shareholders are advised to seek their own independent professional tax advice in relation to their own particular circumstances.

The comments set out below are relevant only to those Quantum Shareholders who hold their Quantum Shares on capital account. The description does not address the Australian tax consequences for Scheme Shareholders who:

(a) hold their Quantum Shares for the purposes of speculation or a business of dealing in securities (e.g. as trading stock);

(b) are subject to the taxation of financial arrangements rules in division 230 of the ITAA 1997 in relation to gains and losses on their Quantum Shares; or

(c) are non-residents of Australia who hold their Quantum Shares in carrying on a business at or through a permanent establishment in Australia.

Quantum Shareholders who are tax residents of a country other than Australia (whether or not they are also residents, or are temporary residents of Australia for tax purposes) should take into account the tax consequences of the Scheme under the laws of their country of residence, as well as under Australian law. These comments relate to Australian tax law only.

8.2 Australian resident shareholders

If the Scheme is Implemented, Paragon will acquire all of the Quantum Shares from Scheme Shareholders. Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration of 0.243 Paragon Shares for each Quantum Share held on the Scheme Record Date.[31]

As discussed in more detail below, the disposal of Quantum Shares to Paragon under the Scheme will give rise to a capital gains tax (**CGT**) event for Scheme Shareholders. Subject to the comments in Section 8.2.6, an Australian tax resident Scheme Shareholder who would otherwise make a capital gain on the disposal of their Quantum Shares under the Scheme should be eligible to choose scrip for scrip roll-over relief.

8.2.1 Capital Gains Tax

The disposal of Quantum Shares by Scheme Shareholders to Paragon under the Scheme will constitute a CGT event A1 (for Australian CGT purposes).

The time of the CGT event will be when the Scheme Shareholders transfer their Quantum Shares to Paragon under the Scheme (i.e. the Implementation Date).

[31] The actual number of Paragon Shares received may be subject to the effect of rounding.

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8.2.2 *Calculation of capital gain or capital loss (apart from scrip for scrip roll-over relief)*

Scheme Shareholders will make:

(a) a capital gain to the extent that their capital proceeds from the disposal of their Quantum Shares are more than the cost base of those Quantum Shares; or

(b) a capital loss to the extent that the capital proceeds are less than the reduced cost base of those Quantum Shares.

Subject to choosing scrip for scrip roll-over relief (discussed below), a Scheme Shareholder who makes a capital gain on disposal of their Quantum Shares will be required to include the net capital gain (if any) for the income year in their assessable income.

Capital gains and capital losses of a taxpayer in a year of income are aggregated to determine whether there is a net capital gain or net capital loss. Any net capital gain is included in assessable income and is subject to income tax. A net capital loss may not be deducted against other income for income tax purposes, but may be carried forward to offset against future capital gains. Specific loss rules apply to Scheme Shareholders that are companies. These rules limit the ability to offset capital losses in a current or later income year.

8.2.3 *Cost base of Quantum Shares*

The cost base of the Quantum Shares of a Quantum Shareholder will generally include the amount paid, and the market value of any property given, to acquire the Quantum Shares, plus certain incidental costs of acquisition and disposal (e.g. brokerage fees and stamp duty) that are not otherwise deductible to the Quantum Shareholder. The reduced cost base of the Quantum Shares of a Quantum Shareholder will be similarly determined.

8.2.4 *Capital proceeds*

The capital proceeds for the disposal of the Quantum Shares of a Scheme Shareholder will be the Scheme Consideration. The amount of the capital proceeds should be the market value of the Paragon Shares received by a Quantum Shareholder under the Scheme.

For CGT purposes, the market value of the Paragon Shares will be taken to be the market price of Paragon Shares received on the Implementation Date.

8.2.5 *CGT discount*

Individuals, complying superannuation entities or trustees that have held their Quantum Shares for at least 12 months may be entitled to benefit from the CGT discount to reduce the amount of the capital gain (after application of capital losses) from the disposal of their Quantum Shares by:

(a) 50% in the case of individuals and trusts (for trustees, the ultimate availability of the discount for the beneficiaries of a trust will depend on the particular circumstances of the beneficiaries); or

(b) 33 1/3% for complying superannuation entities.

The CGT discount will not be available to a Scheme Shareholder that is a company.

8.2.6 *Choosing scrip for scrip roll-over relief*

Scheme Shareholders who make a capital gain on disposal of their Quantum Shares under the Scheme may choose to apply scrip for scrip roll-over relief.

If scrip for scrip roll-over relief is available and chosen by a Scheme Shareholder, the capital gain that would otherwise arise will be disregarded.

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Paragon will not make a choice under section 124-795(4) of the ITAA 1997 to deny scrip for scrip roll-over relief.

Scheme Shareholders must make a choice to apply scrip for scrip roll-over relief before lodging their income tax return for the income year in which the Implementation Date occurs. A Scheme Shareholder will provide sufficient evidence of having chosen scrip for scrip roll-over relief by the way they prepare their income tax return (i.e. by excluding the disregarded capital gain from assessable income). There is no need to lodge a separate notice with the ATO.

Roll-over is not available to a Scheme Shareholder if a capital loss arises on the disposal of their Quantum Shares under the Scheme.

Where a Scheme Shareholder has chosen scrip for scrip roll-over relief, the first element of the cost base of the Paragon Shares received as Scheme Consideration should be equal to the cost base of their original Quantum Shares.

Where scrip for scrip roll-over relief has been chosen by a Scheme Shareholder, the Paragon Shares will be taken to be acquired at the time their Quantum Shares were originally acquired, for the purpose of any subsequent disposal of the Paragon Shares and the application of the CGT discount.

The benefit of choosing scrip for scrip roll-over relief will depend upon the individual circumstances of each Scheme Shareholder.

8.2.7 Where scrip for scrip roll-over relief is not chosen or available

Where scrip for scrip roll-over relief is not chosen or is not available in relation to a Scheme Shareholder's disposal of Quantum Shares under the Scheme:

(a) the capital gain or capital loss from the disposal of the Scheme Shareholder's Quantum Shares will be taken into account in calculating the Quantum Shareholder's net capital gain for the income year in which the Implementation Date occurs; and

(b) the first element of the cost base of each Paragon Share (i.e. the Scheme Consideration) received should be an amount equal to the market value of the Quantum Share given in respect of acquiring the Paragon Share, determined on the Implementation Date.

The acquisition date of the Paragon Shares will be the Implementation Date. This date will be relevant for any future application of the CGT discount with respect to CGT events occurring in respect of the Paragon Shares.

8.2.8 Implications of holding Paragon Shares

As a consequence of participating in the Scheme, each Scheme Shareholder will cease to be a shareholder of Quantum and will become a shareholder of Paragon

Dividends (and any attached franking credits) received by an Australian tax resident shareholder of Paragon would generally be required to be included in the assessable income of such a shareholder.

8.3 Non-resident shareholders

For Scheme Shareholders who are not Australian tax residents (including Ineligible Foreign Shareholders), the disposal of their Quantum Shares should have no CGT consequences if the Quantum Shares are not "taxable Australian property".

The Quantum Shares will only be "taxable Australian property" for non-resident Scheme Shareholders who:

(a) hold their Quantum Shares in carrying on a business at or through a permanent establishment in Australia; or

(b) are individuals who made an election to disregard a CGT event I1 capital gain or capital loss in respect of their Quantum Shares when they ceased to be an Australian tax resident.

For other Scheme Shareholders who are not Australian tax residents, no component of the Quantum Shares should be taxable Australian property as their underlying value is not principally derived from Australian real property.

8.4 Stamp duty

No stamp duty should be payable by Scheme Shareholders in relation to the disposal of their Quantum Shares to Paragon under the Scheme.

8.5 Goods and services tax

Scheme Shareholders should not be liable to GST in respect of a disposal of their Quantum Shares.

Scheme Shareholders may be charged GST on costs (such as adviser fees relating to their participation in the Scheme) that relate to the Scheme. Scheme Shareholders may be entitled to input tax credits for such costs, but should seek independent professional tax advice in relation to their individual circumstances.

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9 Additional information

9.1 Interests of Quantum Directors

9.1.1 Interests of Quantum Directors in Quantum Shares

As at the date of this Scheme Booklet, the Quantum Directors have the following direct and indirect interests in Quantum Shares:

Name	Number of Quantum Shares	Percentage of all Quantum Shares
Drew Townsend[1]	130,644,197	11.58%
John Walstab[2]	514,712,393	45.62%
Alan McCarthy	Nil	N/A
Stephanie Wen	Nil	N/A

[1] Shares are held as follows: 108,151,695 held by Realm Group Pty Ltd; 4,642,267 held by Chicago Limited; 16,986,685 held by D&C Townsend & Townsend Super; and 863,550 jointly held by Drew Townsend, John Walstab and Philip Sidney.

[2] Shares are held as follows: 513,847, 043 held by John Walstab, 863,550 jointly held by Drew Townsend, John Walstab and Philip Sidney and 1,800 held by Walstab Pty Ltd as trustee of the Walstab Superannuation Fund.

Quantum Directors who hold Quantum Shares will be entitled to vote at the Scheme Meeting and receive the Scheme Consideration along with the other Scheme Shareholders.

The Quantum Directors intend to vote all Quantum Shares they hold or control in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Quantum Shareholders.

9.1.2 Interests of Quantum Directors in the Paragon Group

As at the date of this Scheme Booklet, no marketable securities in Paragon or any of its Related Bodies Corporate are held by, or on behalf of, any Quantum Director.

9.1.3 Interests of Quantum Directors in contracts with Paragon Group

No Quantum Director has an interest in any contract entered into by Paragon or any of its Related Bodies Corporate.

9.1.4 Repayment of Related Party Loans

Under the Scheme Implementation Deed, a condition to Implementation of the Scheme is that all Related Party Loans are fully repaid prior to 5:00pm on the Business Day before the Second Court Date.

As at 31 December 2021, the following amounts will be payable to Quantum Directors in respect of their Related Party Loans:

(a) $2,227,995 payable to John Walstab; and

(b) $1,246,458 payable to Drew Townsend.

Details regarding the Related Party Loans are set out in Quantum's 2021 Annual Report.

9.1.5 Other interests of Quantum Directors

Except as set out in this Scheme Booklet (including in relation to the treatment of their Quantum Shares under the Scheme), no Quantum Director has any other interest that is material to Quantum Shareholders' assessment of the Scheme.

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9.2 Quantum Directors' intentions regarding the business, assets and employees of Quantum

The Corporations Regulations require a statement by the Quantum Directors of their intentions regarding Quantum's business. As set out in Section 6.6.3, if the Scheme is Implemented, Paragon intends for the Quantum Board to be reconstituted with Paragon nominees.

Accordingly, it is not possible for the Quantum Directors to provide a statement of their intentions regarding:

(a) the continuation of the business of Quantum or how Quantum's existing business will be conducted;

(b) any major changes, if any, to be made to the business of Quantum; or

(c) the future employment of the present employees of Quantum,

in each case, after the Scheme is Implemented.

If the Scheme is implemented, Paragon will control Quantum. The intentions of Paragon if the Scheme is Implemented are set out in Section 6.6.3.

The intentions of the Quantum Directors if the Scheme is not implemented are described in Section 1.4.

9.3 Dividends

Quantum and Paragon have agreed that, if Paragon declares a dividend prior to Implementation, Quantum may declare a proportionate dividend at the same time.

9.4 Consents and disclaimers

The following persons have given and, before the date on which this Scheme Booklet was lodged with ASIC for registration, have not withdrawn their consent to be named and to the inclusion in this Scheme Booklet of the following statements in the form and context in which they are included:

(a) Leadenhall Corporate Advisory Pty Ltd, in respect of the Independent Expert's Report and references to that report in this Scheme Booklet;

(b) Paragon, in respect of the Paragon Scheme Booklet Information; and

(c) National Australia Bank, in respect of the conditional consent it has provided under Section 5.7.

Each person referred to in this Section 9.3 has not authorised or caused the issue of this Scheme Booklet, does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than as specified in this Section 9.3 and, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Scheme Booklet except in respect of those reports or statements to which they have consented as specified in this Section 9.3.

9.5 Foreign selling restrictions

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should observe any such restrictions including those discussed below.

9.5.1 New Zealand

No action has been taken to register or qualify this Scheme Booklet or any aspect of the Scheme in any jurisdiction outside of Australia. This Scheme Booklet may not be distributed

outside Australia and New Zealand by any person (including nominees and custodians) except as may be approved by Quantum.

This Scheme Booklet is not a New Zealand disclosure document and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the *Financial Markets Conduct Act 2013* or any other New Zealand law). The offer of Paragon Shares under the Scheme is being made to existing shareholders of Quantum in reliance upon the New Zealand *Financial Markets Conduct (Incidental Offers) Exemption Notice 2021* and, accordingly, this Scheme Booklet may not contain all the information that a disclosure document is required to contain under New Zealand law.

9.5.2 South Korea

Neither Quantum nor Paragon are making any representation with respect to the eligibility of any recipients of this Scheme Booklet to acquire the Paragon Shares under the laws of the Republic of Korea, including the *Foreign Exchange Transaction Act* and regulations thereunder. The Paragon Shares have not been, and will not be, registered under the *Financial Investment Services and Capital Markets Act* of Korea (**FSCMA**) and therefore may not be offered or sold in Korea or to any resident of Korea or to any persons for re-offering or resale in Korea or to any resident of Korea (as defined under the Foreign Exchange Transaction Act of Korea and its enforcement decree), except as permitted under the applicable laws and regulations of Korea.

Accordingly, the Paragon Shares may not be offered or sold in Korea other than: (i) to “accredited investors” (as defined in the FSCMA); or (ii) in other circumstances that do not constitute an offer to the public within the meaning of the FSCMA.

9.5.3 Thailand

This Scheme Booklet is not intended to be an offer, sale or invitation for subscription or purchase of securities in Thailand. This Scheme Booklet has not been registered as a prospectus with the Office of the Securities and Exchange Commission of Thailand. Accordingly, this Scheme Booklet and any other document relating to the offer, sale or invitation for subscription or purchase, of the Paragon Shares may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public of Thailand. This Scheme Booklet may only be distributed in Thailand to existing Quantum Shareholders.

9.6 Transaction costs and fees

9.6.1 Quantum transaction costs

Quantum estimates that it will incur approximately $764,000 (excluding GST) in external costs associated with the Scheme if it proceeds to Implementation (including costs already incurred), which includes:

(a) legal advisory fees from Johnson Winter & Slattery, legal advisor to Quantum;

(b) the fees of the Independent Expert; and

(c) registry, despatch and filing fees.

If the Scheme is not implemented, Quantum expects to incur total external costs relating to the Scheme in the order of $744,000 (excluding GST) (including costs already incurred).

9.6.2 Paragon transaction fees

Paragon estimates that it will incur approximately $3.87 million (excluding GST) in external transaction fees related to the Scheme, which includes financial advisory, corporate advisory and legal advisory fees from the following key advisers:

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(a) Herbert Smith Freehills, legal adviser to Paragon;

(b) Liverpool Partners Pty Ltd, financial adviser to Paragon; and

(c) Mark Simari (a director of Paragon) trading as Akita Consulting, noting that Akita Consulting is an authorised representative of Charkaroo Pty Ltd, who is in turn a corporate authorised representative of Sequoia Wealth Management Pty Ltd (**Sequioa**) and Sequioa.

Of these fees, up to approximately $2.23 million is expected to be paid in the form of Paragon Shares. These fees do not include any break fee which may be payable to Paragon's financial or corporate adviser.

9.7 Right to inspect and obtain copies of the Register

Under section 173 of the Corporations Act, a Quantum Shareholder has the right to inspect, and to ask for a copy of, the Register which contains details of the names and addresses of Quantum Shareholders.

A copy of the Register will be given to any Quantum Shareholder upon request and payment of the prescribed fee under the Corporations Act.

9.8 No unacceptable circumstances

The Quantum Directors believe that the Scheme does not involve any circumstances in relation to the affairs of Quantum that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

9.9 Supplementary information

Quantum will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration by ASIC and the date of the Scheme Meeting:

(a) a material statement in this Scheme Booklet is false or misleading;

(b) a material omission from this Scheme Booklet;

(c) a significant change affecting a matter included in this Scheme Booklet; or

(d) a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, Quantum may circulate and publish the supplementary document by any or all of:

(a) prominently placing an advertisement in a published newspaper that is circulated throughout Australia;

(b) posting the supplementary document on Quantum's website at https://qhealthcare.com.au/;

(c) making an announcement to the ASX; or

(d) issuing a supplementary explanatory statement.

9.10 No other material information

Other than as contained in or referred to in this Scheme Booklet, there is no other information material to the making of a decision by Quantum Shareholders about whether or not to vote in favour of the Scheme, being information that is known to Quantum or a director

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of Quantum or a Related Body Corporate of Quantum and which has not previously been disclosed to Quantum Shareholders.

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10 Glossary

10.1 Definitions

In this Scheme Booklet, unless the context otherwise appears, the following terms have the meanings shown below:

AASB	means the Australian Accounting Standards Board.
ASIC	means the Australian Securities and Investments Commission.
Associate	has the meaning given in the Corporations Act but as though Quantum or Paragon (as applicable) is the 'designated body' and, for the avoidance of doubt, is to be read together with the exclusions in section 16 of the Corporations Act.
ASX	means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.
ASX Listing Rules	means the official listing rules of ASX.
ATO	means the Australian Taxation Office.
Boardroom	means Boardroom Pty Limited (ACN 003 209 836).
Break Fee	means $1 million (excluding GST).
Business Day	has the meaning given to it in the ASX Listing Rules.
CG Principles and Recommendations	has the meaning given to that term in Section 5.1.5.
CGT	means Australian capital gains tax.
CHESS	means the Clearing House Electronic Subregister System for electronic transfers of securities operated by ASX Settlement Pty Limited (ABN 49 008 504 532).
Competing Proposal	has the meaning given to that term in clause 1.1 of the Scheme Implementation Deed.
Consideration Share	means a new Paragon Share issued as Scheme Consideration.
Corporations Act	means the *Corporations Act 2001* (Cth).
Corporations Regulations	means the *Corporations Regulations 2001* (Cth).
Court	means the Supreme Court of New South Wales.
Deed Poll	means the deed poll executed by Paragon in favour of Scheme Shareholders, a copy of which is set out in Annexure 3 to this Scheme Booklet.
EBITDA	means earnings before interest, tax, depreciation and amortisation, calculated in a manner consistent with the principles, policies and procedures used to prepare the parties most recent audited accounts.
Effective	means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.
Effective Date	means the date upon which the Scheme becomes Effective.
Eligible Shareholder	means a Scheme Shareholder who is not an Ineligible Foreign Shareholder.
Encumbrance	means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any "security interest" as defined in sections 12(1) or 12(2) of the PPSA or any agreement to create any of them or allow them to exist.
End Date	means seven months after the date of the Scheme Implementation Deed or such other date as Quantum and Paragon agree in writing.

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Escrow Deed	has the meaning given to that term in clause 1.1 of the Scheme Implementation Deed.
Exclusivity Period	means the period commencing on and from 6 November 2021, being the date of the Scheme Implementation Deed and ending on the earlier of: • the date of termination of the Scheme Implementation Deed; • the End Date; and • the Implementation Date.
Governmental Agency	means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity in any jurisdiction. It includes ASIC, ASX (and any other securities exchange) and the Takeovers Panel and any self-regulatory organisation established under statute.
Headcount Test	means the requirement under section 411(1)(4)(a)(ii)(A) of the Corporations Act that the resolution to approve the Scheme at the Scheme Meeting is passed by a majority in number (more than 50%) of Quantum Shareholders present and voting, either in person, by attorney, by corporate representative or by proxy at the Scheme Meeting (and being the first limb of the definition of "Requisite Majorities" below).
IFRS	has the meaning given to that term in Section 5.2.2.
Implementation	means the issuing of the Scheme Consideration to Scheme Shareholders and the transfer of all Quantum Shares to Paragon pursuant to the Scheme. A reference to **Implement**, **Implemented**, **Implementing** or **Implementation of the Scheme** has a corresponding meaning.
Implementation Date	means the date on which the Scheme is to be Implemented, being the fifth Business Day following the Scheme Record Date, or such other date agreed by Quantum and Paragon in writing.
Independent Expert	means Leadenhall Corporate Advisory Pty Ltd (ACN 114 534 619).
Independent Expert's Report	means the report set out in Annexure 1 to this Scheme Booklet.
Ineligible Foreign Shareholder	mean a Scheme Shareholder whose address shown in the Register on the Scheme Record Date is a place outside Australia and its external territories, New Zealand, Thailand or South Korea (or any other jurisdictions agreed by the parties in writing (each acting reasonably)), unless Quantum and Paragon (each acting reasonably) determine that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with Consideration Shares when the Scheme becomes Effective.
Interested Persons	has the meaning given to that term in Section 5.11.1.
Key Executive	means John Walstab.
Last Practicable Date	means 14 December 2021.
Material PGC Contract	has the meaning given to that term in Section 5.7.
Merged Group	means the combination of the Quantum Group and the Paragon Group, as comprised by Paragon and its Subsidiaries following Implementation of the Scheme
Merged Group Pro-Forma Historical Cash Flow Statements	has the meaning given to that term in Section 6.7.
Merged Group Pro-Forma Historical Financial Information	has the meaning given to that term in Section 6.7.

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Merged Group Pro-Forma Historical Income Statements	has the meaning given to that term in Section 6.7.
Merged Group Pro-Forma Historical Statement of Financial Position	has the meaning given to that term in Section 6.7.
Merger	Means the proposed acquisition combination of the Quantum Group and the Paragon Group, as comprised by Paragon and its Subsidiaries following Implementation of the Scheme
NAB or **National Australia Bank**	means National Australia Bank Limited.
Paragon	means Paragon Care Limited (ACN 064 551 426).
Paragon Board	means the board of directors of Paragon, from time to time.
Paragon Constitution	means the constitution adopted by Paragon on 18 November 2020, as amended from time to time.
Paragon Counterproposal	has the meaning given to that term in Section 3.3.5.
Paragon Director	means a director of Paragon, from time to time.
Paragon Group	means Paragon and its Related Bodies Corporate.
Paragon Historical Financial Information	has the meaning given to that term in Section 5.2.1.
Paragon Historical Income Statements	has the meaning given to that term in Section 5.2.1.
Paragon Historical Statements of Cash Flows	has the meaning given to that term in Section 5.2.1.
Paragon Historical Statements of Financial Position	has the meaning given to that term in Section 5.2.1.
Paragon Material Adverse Change	has the meaning given to the term “Bidder Material Adverse Change” in clause 1.1 of the Scheme Implementation Deed.
Paragon Prescribed Event	has the meaning given to the term “Bidder Prescribed Event” in clause 1.1 of the Scheme Implementation Deed.
Paragon Register	means the register of members of Paragon.
Paragon Registry	means Link Market Services Limited (ACN 083 214 537).
Paragon Scheme Booklet Information	means the letter from the Chair of Paragon, Section 5, Section 6, Section 7 (other than the information in that Section relating to Quantum and not the Merged Group), Section 2 regarding “Who is Paragon?”, “Who will be the directors of the Merged Group?” and “Who will be the substantial shareholders of the Merged Group following Implementation?” and Section 9.6.2 (Paragon transaction fees).
Paragon Share	means a fully paid ordinary share in Paragon.
Paragon Shareholder	means a person who is recorded in the Paragon Register as the holder of Paragon Shares.
Plan	has the meaning given to that term in Section 5.9.
PPSA	means the *Personal Property Securities Act 2009* (Cth).
Proxy Form	means the proxy form.
Quantum Board	means the board of directors of Quantum.
Quantum Director	means a director of Quantum.
Quantum Group	means Quantum and its Related Bodies Corporate.
Quantum Material Adverse Change	has the meaning given to the term “Target Material Adverse Change” in clause 1.1 of the Scheme Implementation Deed.
Quantum Prescribed Event	has the meaning given to the term “Target Prescribed Event” in clause 1.1 of the Scheme Implementation Deed.

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Quantum Scheme Booklet Information	means all information in this Scheme Booklet other than the Paragon Scheme Booklet Information and the Independent Expert's Report.
Quantum Share	means a fully paid ordinary share in the capital of Quantum.
Quantum Shareholder	means a person who is recorded in the Register as a holder of Quantum Shares at the time of the relevant inquiry or as at the referenced date.
Quantum Shareholder Information Line	Means the Quantum Shareholder Information Line available on 1300 737 760 (within Australia) or + 61 2 9290 9600 (outside Australia) on Business Days between 9:00am and 5:30pm (Sydney time).
Register	means the register of members of Quantum.
Registered Address	means, in relation to a Scheme Shareholder, their address as shown in the Register as at the Scheme Record Date.
Related Body Corporate	has the meaning given to it in the Corporations Act.
Related Party Loan	means any amounts owing by a member of the Quantum Group to any Quantum Shareholder, any officer of a member of the Quantum Group or any of their Associates, including any amounts owing by Quantum to each of John Walstab, Drew Townsend, Nightdoc Pty Ltd as trustee for the Tomlin Super Fund and H.W. Jang.
Relevant Interest	has the meaning given to it in the Corporations Act.
Representative	has the meaning given to that term in clause 1.1 of the Scheme Implementation Deed.
Requisite Majorities	means the majorities required under section 411(4)(a)(ii) of the Corporations Act, being: • unless the Court orders otherwise, a majority in number (more than 50%) of Quantum Shareholders present and voting (whether in person (virtually), by proxy, by attorney or by a corporate representative) at the Scheme Meeting (the 'Headcount Test' as defined); and • at least 75% of the total number of votes cast on the Scheme Resolution.
Sale Agent	means a person appointed by Quantum to sell the Consideration Shares that are to be issued to Ineligible Foreign Shareholders.
Sale Proceeds	has the meaning given to it in the Scheme Implementation Deed.
Scheme	means the scheme of arrangement, a copy of which is set out in Annexure 2 to this Scheme Booklet between Quantum and the Quantum Shareholders, subject to any modification or amendments made pursuant to section 411(6) of the Corporations Act.
Scheme Booklet	means this document, including the explanatory statements in relation to the Scheme as required under section 412(1) of the Corporations Act in respect of the Scheme.
Scheme Consideration	means the consideration to be provided by Paragon to Scheme Shareholders under the Scheme, being 0.243 Consideration Shares for each Quantum Share owned by a Scheme Shareholder as at the Scheme Record Date for Eligible Shareholders.
Scheme Implementation Deed	means the Scheme Implementation Deed between Paragon and Quantum, dated 6 November 2021, a summary of which is contained in Section 3.5 and a full copy of which is attached to the Quantum ASX announcement of 8 November 2021, which is available on the ASX website at https://www.asx.com.au/ and Quantum's website at https://qhealthcare.com.au/cg/ .
Scheme Meeting	means the meeting of Quantum Shareholders to be held virtually at 3:00pm (Sydney time) on Thursday, 27 January 2021.

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Scheme Record Date	means 7:00pm (Sydney time) on the fifth Business Day following the Effective Date or such other date as Quantum and Paragon agree in writing.
Scheme Resolution	means the resolution to be put to Quantum Shareholders to approve the Scheme at the Scheme Meeting as set out in the Notice of Scheme Meeting set out in Annexure 4 to this Scheme Booklet.
Scheme Share	means a Quantum Share on issue as at the Scheme Record Date.
Scheme Shareholder	means a holder of a Quantum Share as at the Scheme Record Date.
Scheme Transfer	means, in relation to each Scheme Shareholder, a duly completed and executed proper instrument of transfer of their Scheme Shares to Paragon for the purpose of section 1071B of the Corporations Act, which will be in the form of a master share transfer form of all of the Scheme Shares.
Second Court Date	means the first day on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is, or is to be, heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.
Second Court Hearing	means the hearing before the Court to approve the Scheme following the Scheme Meeting.
Subsidiary	has the meaning given to that term in the Corporations Act.
Superior Proposal	has the meaning given to that term in clause 1.1 of the Scheme Implementation Deed.
Third Party	means a person other than a member of the Quantum Group or the Paragon Group.
Unsolicited Competing Proposal	has the meaning given to that term in clause 1.1 of the Scheme Implementation Deed.
VWAP	means volume weighted average price, calculated by dividing the value of trades by the volume of trades over a given period.

10.2 Interpretation

In this Scheme Booklet, unless the context otherwise appears:

(a) words and phrases have the same meaning (if any) given to them in the Corporations Act, unless inconsistent with the meaning given in Section 10.1;

(b) words importing a gender include any gender;

(c) words importing the singular include the plural and vice versa;

(d) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

(e) a reference to a Section or annexure is a reference to a Section of and an annexure to this Scheme Booklet as relevant;

(f) a reference to any statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations, ordinances or by laws amending, varying, consolidating or replacing it and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;

(g) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;

(h) a reference to time is a reference to time in Sydney, Australia; and

(i) a reference to currency is a reference to the lawful currency of Australia.

Annexure 1 – Independent Expert's Report

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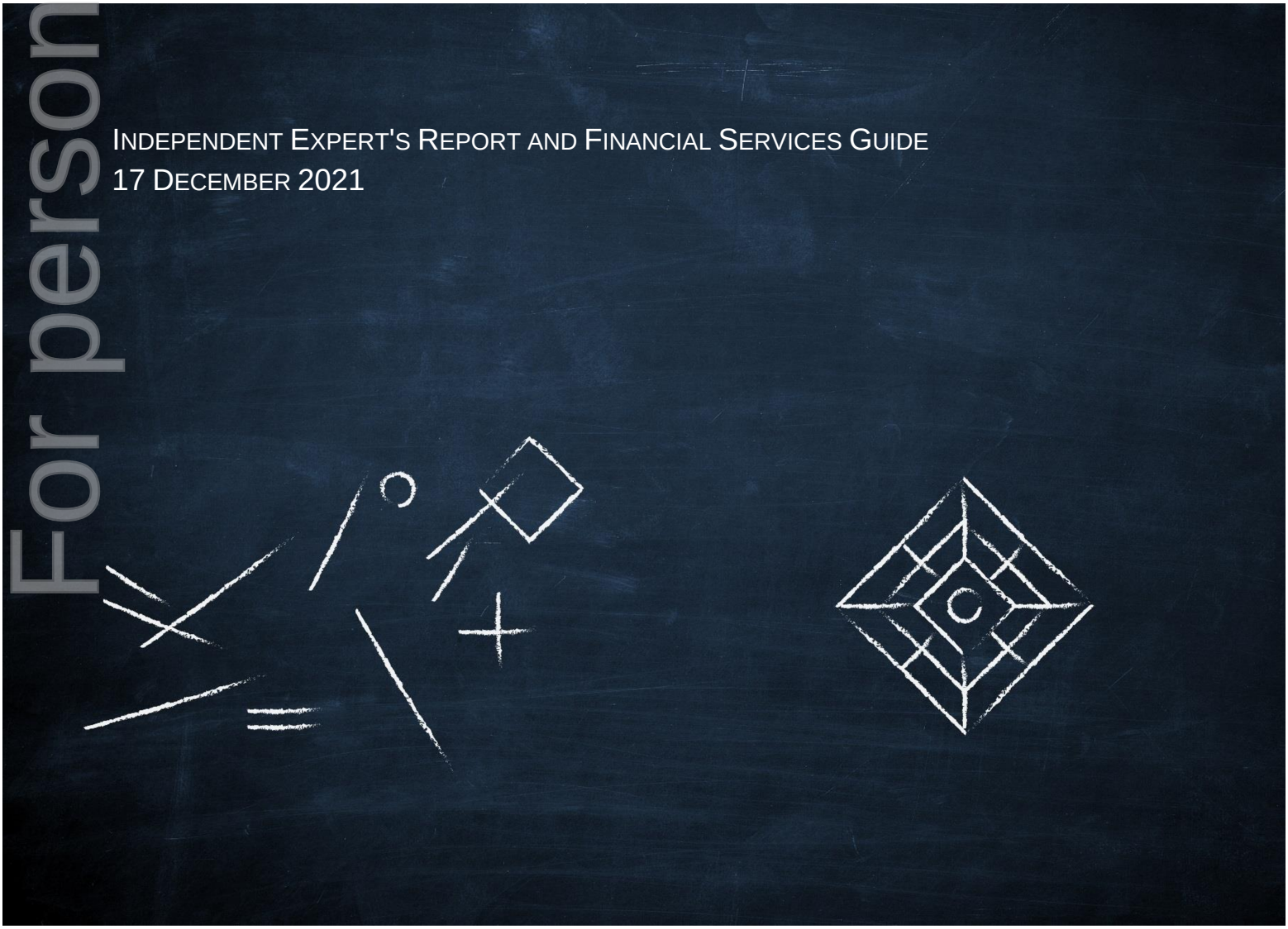
QUANTUM HEALTH GROUP LIMITED

PROPOSED ACQUISITION BY PARAGON CARE LIMITED

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE
17 DECEMBER 2021



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LEADENHALL

17 December 2021

The Directors
Quantum Health Group Limited
Level 12, 225 George Street
Sydney NSW 2000

Dear Directors,

Independent Expert's Report for Quantum Health Group Limited

1. Introduction

Quantum Health Group Limited ("**Quantum**") is a public company listed on the Australian Securities Exchange ("**ASX**") that is engaged in the distribution and maintenance of state-of-the-art medical imaging and patient treatment equipment. As at 7 November 2021, Quantum had a market capitalisation of approximately $84.6 million.

Paragon Care Limited ("**Paragon**") is engaged in the supply of equipment, devices and consumables to the healthcare market. On 7 November 2021, Paragon had a market capitalisation of approximately $107.2 million.

On 8 November 2021, Quantum and Paragon entered into an agreement for Paragon to acquire Quantum ("**Proposed Transaction**") for 0.243 Paragon shares per Quantum share ("**Consideration**").

Further details of the Proposed Transaction are set out in Section 1 of our detailed report.

2. Purpose of the report

The Proposed Transaction is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act 2001. Whilst there is no formal requirement for an independent expert's report in relation to the Proposed Transaction, the directors of Quantum have engaged Leadenhall Corporate Advisory Pty Ltd ("Leadenhall") to prepare an independent expert's report to assist the shareholders of Quantum ("**Shareholders**") to evaluate whether the Proposed Transaction is in their best interests.

A condition precedent of the Proposed Transaction is the repayment of loans made to Quantum by two directors, John Walstab and Drew Townsend ("**Related Party Loans**"). As requested by Quantum, we have assessed whether the repayment of the Related Party loans would result in John Walstab and Drew Townsend receiving benefits that other shareholders would not.

Further information regarding our scope and purpose is set out in Section 2 of our detailed report.

3. Basis of evaluation

We have assessed the Proposed Transaction as being in the best interests of shareholders if it is either *fair and reasonable* or, *not fair but reasonable*. In order to assess whether the Proposed Transaction is fair and reasonable, and therefore in the best interests, of Shareholders we have:

- Assessed it as fair if the value of the consideration offered is greater than or equal to the value of a Quantum share on a control basis
- Assessed it as reasonable if it is fair, or despite not being fair, the advantages to Shareholders of the Proposed Transaction outweigh the disadvantages.

Further details on the basis of evaluation are provided in Section 2 of our detailed report.

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4. The Proposed Transaction is not fair

Assessed value of Quantum

We have assessed the fair market value of a Quantum share (on a control basis) using a capitalisation of future maintainable earnings ("**CFME**") method as summarised in the following table:

Table 1: Valuation summary – Quantum

$'000	Low	High
Maintainable EBITDA	11,000	11,500
Multiple	8.0x	8.5x
Enterprise value	**88,000**	**97,750**
Net cash	7,942	7,942
Surplus assets	2,338	2,338
Equity value	**98,280**	**108,030**
Number of shares	1,128,308	1,128,308
$/share	**0.087**	**0.096**

Source: Leadenhall Analysis

In adopting this approach, we have

- Selected a maintainable level of EBITDA of $11.0 million to $11.5 million. This range was primarily selected with reference to forecast EBITDA for FY22.
- Applied an EBITDA multiple of 8.0x to 8.5x on a control basis. This multiple range is primarily based on prices paid in recent transactions for companies with similar activities to Quantum.
- Added the net surplus cash balance and surplus assets held by Quantum.

We have cross-checked our assessed valuation range under the CFME approach with an analysis of share trading in Quantum (up until the announcement of the Proposed Transaction) which provides broad support for our assessed value of a Quantum share.

Further details of our valuation of Quantum before the Proposed Transaction are provided in Section 8 of our detailed report.

Assessed value of the Consideration

The Consideration is comprised of shares in the combined Paragon / Quantum business ("**Proposed Merged Entity**"). We have assessed the value of a share in the Proposed Merged Entity by reference to trading in Paragon shares after the announcement of the Proposed Transaction, with an implied multiples cross-check. The assessed value of the Consideration is set out in the table below:

Table 2: Value of Consideration

	Low	High
Number of Paragon shares per Quantum share	0.243	0.243
Assessed value of a Paragon share ($)	0.30	0.34
Assessed value of consideration ($)	**0.073**	**0.083**

Source: Leadenhall Analysis

Further details of our valuation of the Consideration are provided in Section 9 of our detailed report.

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Fairness comparison

We have assessed whether the Proposed Transaction is fair by comparing our assessed fair market value of a Quantum share (on a control basis) with the assessed value of the Consideration. This comparison is set out in the table below.

Table 3: Assessment of fairness – shares

Cents	Low	High
Assessed value of a Quantum share	8.71	9.57
Assessed value of Proposed Consideration	7.29	8.26

Source: Leadenhall Analysis

Since the assessed value of the Consideration is less than the assessed range of values of a Quantum share the Proposed Transaction is not fair to Shareholders.

5. The proposed Transaction is reasonable

We have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, the advantages to the Shareholders outweigh the disadvantages. We have therefore considered the following advantages and disadvantages of the Proposed Transaction to Shareholders.

Advantages

The main advantages of the Proposed Transaction are:

- ***Increase in standalone value:*** our assessed value of the Consideration is above recent trading in Quantum shares and our assessment of a reasonable value of a Quantum share on a minority basis of 6.71 cents to 7.37 cents (assuming a control premium of 30%, being the midpoint of the generally accepted range). At the midpoint, the assessed value of the Consideration is 10.5% higher than our assessment of a reasonable value of a Quantum share on a minority basis. Thus, in our opinion, the Proposed Transaction is value accretive compared to Quantum continuing to trade on a standalone basis.
- ***Size and diversification:*** the Proposed Merged Entity will be larger in size and offer a significantly more diversified product portfolio than Quantum on a stand-alone basis. This may lead to a market re-rating which could result in shares in the Proposed Merged Entity trading at prices in excess of our assessed range over time. The combined size and geographical reach of the Proposed Merged entity may also be attractive to potential new distribution partners.
- ***Potential for synergies:*** short term synergies include elimination of duplicated costs (e.g. listed company, accounting and board costs). In the medium term there are significant revenue opportunities to distribute Paragon's portfolio through Quantum's established Asian network. No synergies are reflected in our valuation of the Consideration.
- ***Broader shareholder register:*** currently the two largest shareholders own more than 56% of Quantum shares. The Proposed Merged Entity would have a much broader shareholder base which would likely result in greater liquidity for Quantum shareholders.
- ***Improved access to capital:*** the larger size and broader shareholder base of the Proposed Merged entity could improve access to debt and equity capital markets. Any capital raised could be used to accelerate growth.

Disadvantages

The main disadvantages of the Proposed Transaction are:

- ***Integration risks:*** historically Paragon has experienced some difficulties with the integration of acquired entities. Integration risk may put downward pressure on the Paragon share price in the short term.
- ***Loss of control*:** Shareholders will collectively lose control of Quantum. However, the largest shareholdings in the Proposed Merged Entity will be smaller than the current large holdings in Quantum, thus making it harder for any individual shareholder to implement decisions in its own favour at the expense of other investors.

- ***Limited control premium:*** the transaction pricing has been determined on a nil premium basis and as such Quantum shareholders are not receiving a premium for control (as the Consideration offered is less than our valuation of a Quantum share on a control basis). However, in the absence of a superior offer, Quantum shares would likely trade in a similar range to recent share prices, which is less than the value of the Consideration.
- ***Tax implications:*** acceptance of the Proposed Transaction may have varying tax implications for individual shareholders.

Conclusion on reasonableness

Whilst the value of the Consideration does not include a full control premium, it is slightly higher than recent trading prices in Quantum shares and our assessment of a reasonable value of a Quantum share on a minority basis. We also consider there to be potential upside to our assessed value of the Proposed Merged Entity for Shareholders holding Paragon shares in the medium term if the anticipated synergies from the Proposed Transaction are realised. To date no superior offer has been received by Quantum, and Paragon is the most likely buyer. On this basis, we consider the Proposed Transaction to be reasonable.

6. Opinion on Proposed Transaction

As set out above, in our opinion, the Proposed Transaction is not fair but reasonable to Shareholders. It is therefore in their best interests. This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

7. Opinion on Related Party Loan

In forming an opinion on the impact of the repayment of the Related Party Loans, we have had primary regard to the following factors:

- The terms of the Related Party Loans
- The impact on the solvency and cash holdings of Quantum
- Market interest rates for unsecured loans
- Likely borrowing power and interest rates applicable to the Proposed Merged Entity in the absence of the Related Party Loans

Based on these considerations, which are set out in detail in Section 10 of our report, in our opinion:

- There is nothing that has come to our attention to indicate that the value of the Related Party Loans, as recognised in Quantum's financial statements, should be discounted.
- The repayment of the Related Party Loans will not result in a net financial benefit to John Walstab and/or Drew Townsend to the detriment of other Quantum shareholders.

Yours faithfully

Richard Norris
Director

Dave Pearson
Director

Note: All amounts stated in this report are in Australian dollars unless otherwise stated.
Tables in this report may not add due to rounding.

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ABN 11 114 534 619

Australian Financial Services Licence No: 293586

FINANCIAL SERVICES GUIDE

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In providing this report, we are required to issue this Financial Services Guide ("**FSG**") to retail clients. This FSG is designed to help you to make a decision as to how you might use this general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

Financial Services We are Licensed to Provide

We hold Australian Financial Services Licence 293586 which authorises us to provide financial product advice in relation to securities (such as shares and debentures), managed investment schemes and derivatives.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product. Our report will include a description of the circumstances of our engagement and the party who has engaged us. You will not have engaged us directly but will be provided with a copy of the report because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial service licensee authorised to provide the financial product advice contained in that report.

General Financial Product Advice

The advice produced in our report is general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that We May Receive

We charge fees for providing reports. These fees will be agreed with the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis. Leadenhall is entitled to receive a fixed fee of $80,000 (excl. GST) for preparing this report. This fee is not contingent upon the outcome of the Proposed Transaction.

Except for the fees referred to above, neither Leadenhall, nor any of its directors, consultants, employees or related entities, receive any pecuniary or other benefit, directly or indirectly, for or in connection with the provision of this report.

Remuneration or Other Benefits Received by our Employees, Directors and Consultants

All our employees receive a salary. Our employees are eligible for bonuses which are not based on the outcomes of any specific engagement or directly linked to the provision of this report. Our directors and consultants receive remuneration based on time spent on matters.

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Referrals

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the reports that we are licensed to provide.

Complaints Resolution

As the holder of an Australian Financial Services Licence, we are required to have a system in place for handling complaints from persons to whom we have provided reports. All complaints must be in writing, to the following address:

Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001

Email: office@leadenhall.com.au

We will try to resolve your complaint quickly and fairly and will endeavour to settle the matter within 14 days from the time the matter is brought to our attention.

If you do not get a satisfactory outcome, you may lodge a complaint with the Australian Financial Complaints Authority (AFCA). AFCA provides fair and independent financial services complaint resolution services that are free to consumers and can be contacted as follows:

Website: www.afca.org.au

By post: Australian Financial Complaints Authority, GPO Box 3, Melbourne VIC 3001

Compensation Arrangements

Leadenhall holds professional indemnity insurance in relation to the services we provide. The insurance cover satisfies the compensation requirements of the Corporations Act 2001.

17 December 2021

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1 THE PROPOSED TRANSACTION

1.1 Acquisition by Paragon

Quantum is an ASX listed company that distributes and services high technology healthcare equipment in Australia, New Zealand and Asia. Further details of Quantum's operations are provided in Section 4 of this report.

Paragon is an ASX listed company that distributes medical equipment, devices and consumables as well as providing repair and maintenance services to the healthcare markets in Australia and New Zealand. Further details of Paragon's operations are provided in Section 5 of this report.

On 8 November 2021, Quantum and Paragon announced they had entered into a Scheme Implementation Deed for Paragon to acquire 100% of the shares in Quantum by way of a scheme of arrangement. The agreed consideration for each Quantum share is 0.243 Paragon shares. If the Proposed Transaction is approved, Quantum shareholders will own approximately 43.8% of the Proposed Merged Entity.

1.2 Conditions

For the Proposed Transaction to become effective the following conditions must be met or waived:

- Shareholder approval, which requires both a majority by number of Shareholders and at least 75% of the votes cast, at the scheme meeting due to be held on 27 January 2021, to be in favour of the Proposed Transaction.
- The independent expert concluding the Proposed Transaction is in the best interests of Quantum shareholders.
- All related party loans made to Quantum by any shareholder, officer or their associates are repaid.
- An escrow deed is entered into by John Walstab, Quantum's largest shareholder and any of his associates, agreeing to escrow all shares received as consideration for the Proposed Transaction (50% for 12 months and 50% for 24 months).
- Certain key executives of Quantum to enter into new employment agreements.
- Approval by the Supreme Court of New South Wales.
- Various other customary conditions precedent (i.e. regulatory approvals, no adverse changes, ASIC and ASX to issue all relief, no restraints, no prescribed events, representation and warranties from both parties and no material litigation).

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2 SCOPE

2.1 Purpose of the report

Acquisition of Quantum

The Proposed Transaction is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act 2001 ("**s411**"). Under s411 the scheme must be approved by shareholders as described in Section 1 above.

Part 3 of Schedule 8 of the Corporations Regulations 2001 (Cwlth) ("**Part 3**") prescribes the information to be provided to shareholders in relation to schemes of arrangement. Part 3 requires an independent expert's report stating whether a proposed scheme is in the best interests of shareholders of the company subject to the scheme if, prior to the scheme, either:

- The other party to the scheme is entitled to more than 30% of the voting shares in the company which is subject to the scheme; or
- A director of the corporation that is the other party to the scheme is also a director of the company that is the subject of the scheme.

As Quantum and Paragon do not have any directors in common and Paragon does not currently hold shares in Quantum, there is no formal requirement for an independent expert's report in relation to the Proposed Transaction. However, the directors of Quantum have engaged Leadenhall to prepare an independent expert's report, as if it was required under Part 3, to assist Shareholders evaluate the Proposed Transaction.

Related Party Loans

John Walstab and Drew Townsend, directors of Quantum, have made loans to Quantum, which are recognised as liabilities in Quantum's financial statements. It is a condition precedent to the Proposed Transaction that these loans are fully repaid.

As requested by Quantum, we have assessed whether the repayment of the Related Party Loans would result in John Walstab and Drew Townsend receiving benefits that other stakeholders would not. In doing so we have formed an opinion as to whether:

- There is any reason for the value of the Related Party Loans, as recognised in Quantum's financial statements, to be discounted.
- The repayment of the Related Party Loans will result in a financial benefit to John Walstab and/or Drew Townsend at the detriment of other Quantum shareholders.

2.2 Basis of evaluation

Introduction

There is no legal definition of the expression '*in the best interests*'. However, *Regulatory Guide 111: Content of Expert Reports* ("**RG111**") issued by ASIC provides guidance on its meaning. RG111.19 requires an expert to assess whether a scheme of arrangement involving a change of control is '*fair and reasonable*'. A transaction would be '*in the best interests*' of shareholders if it is either '*fair and reasonable*' or '*not fair but reasonable*'. As the Proposed Transaction is a control transaction, we have adopted this approach.

RG111 requires a separate assessment of whether a control transaction is '*fair*' and whether it is '*reasonable*'. We have therefore considered the concepts of '*fairness*' and '*reasonableness*' separately. The basis of assessment selected and the reasons for that basis are discussed below.

Fairness

In accordance with RG111.11, we have assessed the Proposed Transaction as fair if the consideration offered to Shareholders is equal to, or greater than, the value of a Quantum share. The value of a Quantum share has been determined on a control basis (i.e. including a control premium). This is consistent with the requirement of RG111.11 that the comparison for a takeover must be made assuming a 100% interest in the target company.

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We have assessed the values of a Quantum share and the consideration offered at fair market value, which is defined by the International Glossary of Business Valuation Terms as:

> *The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.*

While there is no explicit definition of value in RG111, this definition of fair market value is consistent with basis of value described at RG111.11 and common market practice.

Special value is defined as the amount a specific purchaser is willing to pay in excess of fair market value. A specific purchaser may be willing to pay a premium over fair market value as a result of potential economies of scale, reduction in competition or other synergies they may enjoy arising from the acquisition of the asset. However, to the extent a pool of hypothetical purchasers could all achieve the same level of synergies the value of those synergies may be included in fair market value. Special value is typically not considered in forming an opinion on the fair market value of an asset. Our valuation of Quantum does not include any special value.

Reasonableness

In accordance with RG111, we have defined the Proposed Transaction as being reasonable if it is fair, or if, despite not being fair, Leadenhall believes that there are sufficient reasons for Shareholders to vote for the proposal. We have therefore considered whether the advantages to Shareholders of the Proposed Transaction outweigh the disadvantages. To assess the reasonableness of the Proposed Transaction we have considered the following significant factors recommended by RG111.13:

- Paragon has no pre-existing holding in Quantum.
- The size of existing shareholding blocks in Quantum.
- The liquidity of the market in Quantum's shares.
- Taxation losses, cash flow or other benefits through achieving 100% ownership of Quantum.
- Any special value of Quantum to Paragon.
- The likely market price of Quantum shares if the Proposed Transaction is rejected.
- The value of Quantum to an alternative bidder and the likelihood of an alternative offer.

We have also considered other significant advantages and disadvantages to Shareholders of the Proposed Transaction.

2.3 Individual circumstances

We have evaluated the Proposed Transaction for Shareholders as a whole. We have not considered its effect on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Proposed Transaction is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of the Proposed Transaction on their specific financial circumstances.

3 MEDICAL AND SCIENTIFIC EQUIPMENT WHOLESALING

Quantum operates in the medical equipment market, distributing high-end medical equipment throughout Australasia, with Australia, South Korea and Thailand, collectively accounting for 85% of its total revenue. Paragon is a leading supplier of healthcare equipment, devices, and consumables in Australia and New Zealand. We have therefore focused our analysis on the Australian medical and surgical equipment wholesaling industry with a brief overview of the medical device markets in South Korea and Thailand.

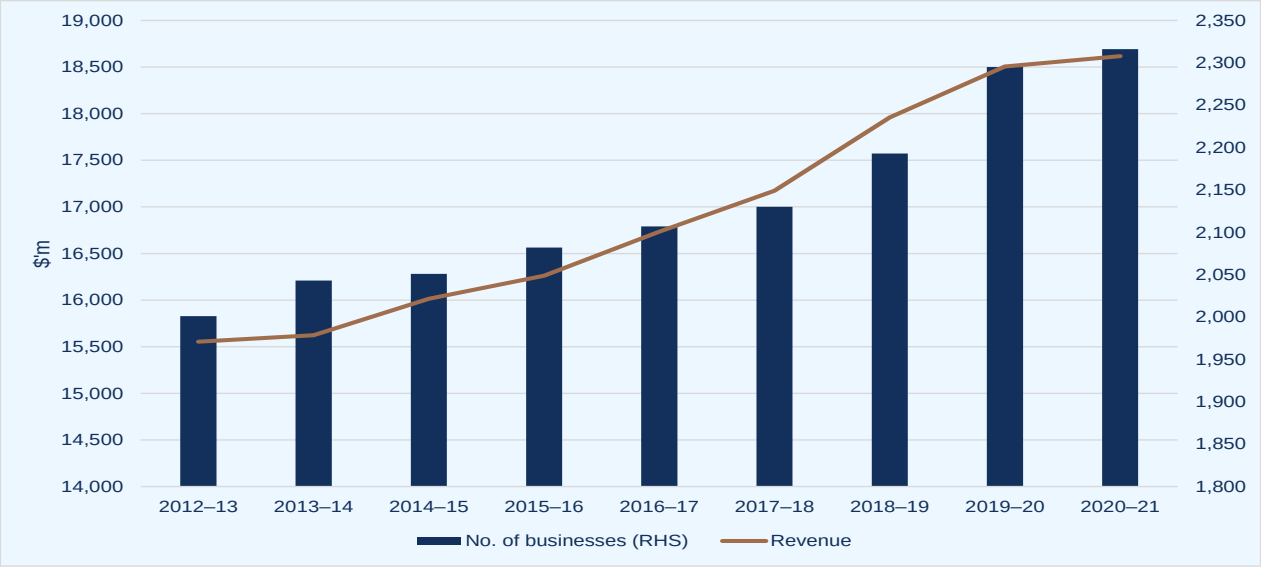
3.1 Australia

3.1.1. Overview

Rising demand for medical services, driven by an ageing population, and subsequent increased government spending on healthcare, has underpinned the expansion of the medical and scientific equipment wholesaling industry over the past ten years. The COVID-19 pandemic has boosted demand for some industry participants (e.g. suppliers of respiratory equipment, personal protective equipment and testing consumables), while others have faced decreased demand due to depressed volumes of elective surgeries and delays in major equipment purchases as the healthcare system focused on treatment of urgent patient needs and slowing the spread of COVID-19. Furthermore, industry growth has been hampered by global supply chain disruption limiting the import volume of equipment and products.

The following figure shows the growth in industry revenue and number of market participants over 2012/13 - 2020/21.

Figure 1: Medical and scientific equipment wholesaling industry in Australia



Source: IBIS World

Despite increasing revenue, industry profit margins declined over the past five years, primarily due to higher operating costs and increased competition.

3.1.2. Products and services

The industry comprises the following major product segments:

- **Medical and surgical equipment:** contributed over 60% of industry revenue in 2021. This segment is further divided into two sub-categories:
  - Appliances, and apparatus such as X-ray machine and sterilisation equipment, ultrasound machines, diagnostic products, ventilators, and medical monitoring equipment.
  - Instruments and supplies such as first aid equipment, needles, bandages, and consumables.
- **Scientific and professional equipment:** covers a range of products from measuring equipment, process control instrument, dental equipment and supplies to laboratory apparatus and other instruments.

Whilst both Paragon and Quantum offer medical and surgical appliances and apparatus, Quantum specialises in diagnostic equipment whereas Paragon also provides medical consumables and supplies.

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3.1.3. Major markets

The two major markets for the industry are public hospitals and private medical practices and hospitals, which respectively accounted for 26.7% and 25.9% of industry revenue in 2021. The purchase of scientific equipment by industry and mining firms contributed 12.6% of revenue and other revenue was derived from dental practices and research organisations.

Despite additional purchases in response to COVID-19, revenue contribution from public hospitals declined over the past few years due to low growth in admissions and hospital numbers compared to private hospitals. The trend of wholesale bypass also affects demand from this segment as public hospitals are often constrained by limited budgets. They are able to reduce their costs by purchasing directly from manufacturers through fixed period tenders.

In contrast, the strong growth in the private health sector has offset the impact of wholesale bypass.

3.1.4. Industry drivers

Key drivers of profitability for the industry include:

Ageing population and increased life expectancy

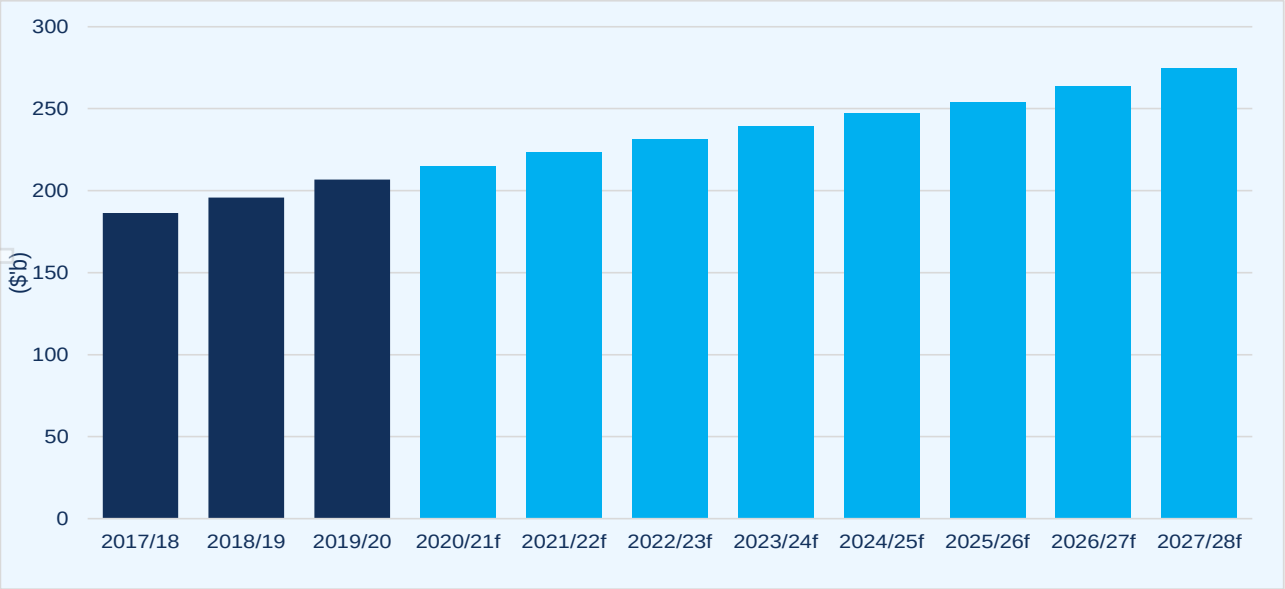
Australia has an ageing population with people aged 65 and above accounting for over 16% of the population in 2020. This is forecast to grow to 19.5% by 2030. The median age of the population is also expected to rise from 37 to 40 years over the same period.

Older people are more prone to injury and illness and therefore require more frequent and extensive medical treatment. An increasingly ageing population and longer life expectancy creates greater need for medical attention, which subsequently heightens demand for medical equipment and supplies.

Healthcare expenditure

Total healthcare expenditure has increased significantly over past decade with the majority of spending coming from the public sector. Australian governments have allocated more funding to the healthcare industry to meet increasing demand for health services from an ageing population and more recently due to the outbreak of COVID-19, for the treatment and containment of the virus. Increased funding allows hospitals and other health service providers to purchase new equipment, boosting demand in the sector. According to IBIS World, total healthcare expenditure is expected to reach $274.7 billion for the year ending 30 June 2028.

Figure 2: Total healthcare expenditure in Australia



Source: IBIS World

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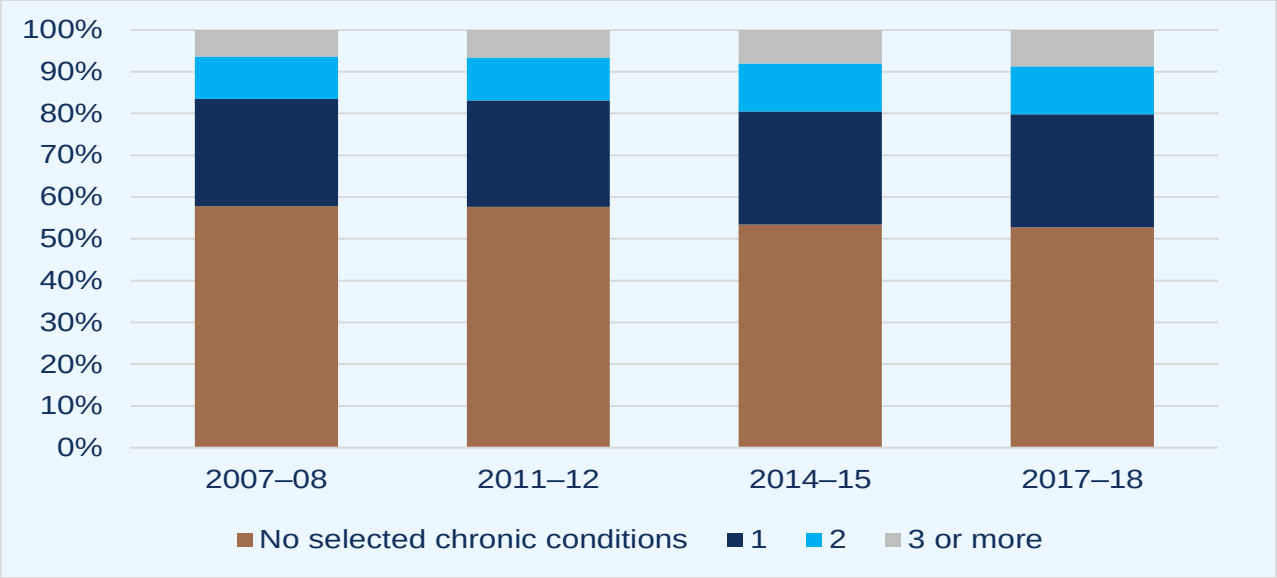
Increase in chronic disease

The prevalence of chronic illness has increased by 5% over the past decade. Based on the latest statistics available, 47% of Australians have at least one of the ten most common chronic conditions and 80% aged over 65 years have more than one condition. The most common chronic illnesses are mental health, back pain, arthritis, asthma, diabetes and heart disease. The rising incidence of chronic diseases has contributed to greater demand for medical services and equipment, particularly in pathology and diagnostic imaging services.

Figure 3: Number of selected chronic conditions

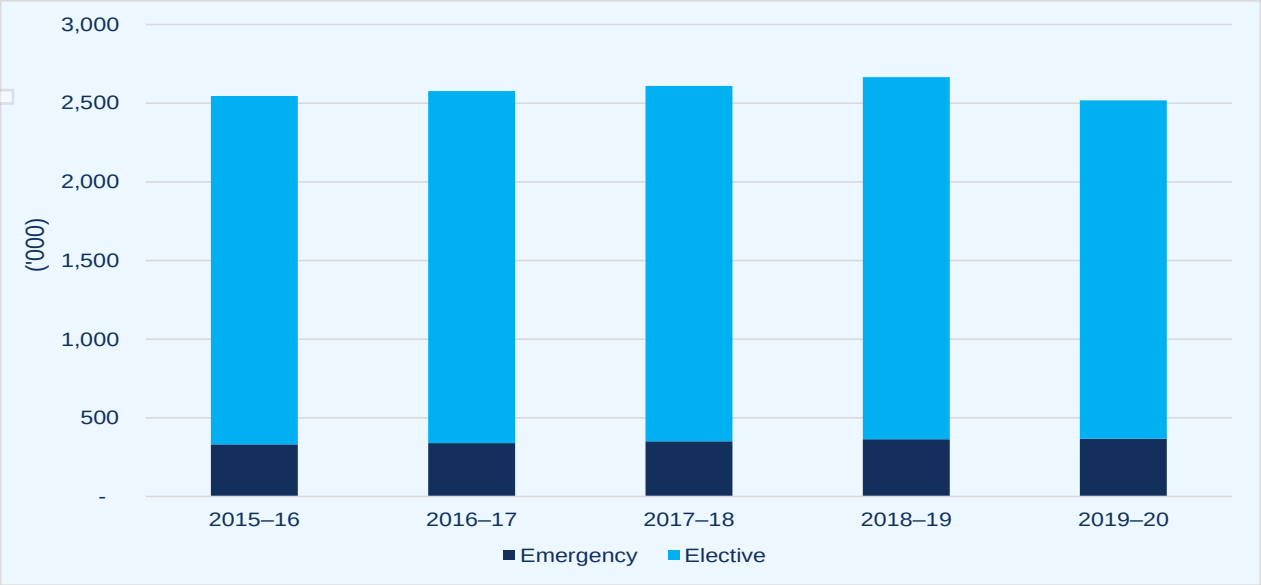


Source: Australia Bureau of Statistics

Increase in total number of procedures

Growth in the number of medical procedures has a positive impact on the demand for medical products through depletion of consumables and increasing wear and tear of the equipment. During 2015-2019, the total number of admissions involving surgeries increased by 4.7% from 2.55 million to 2.67 million with elective surgeries making up over 85% of the procedures performed. The total number of procedures declined by 6% in 2019-20 as a result of COVID-19 restrictions applied to selected elective surgeries, which included temporary suspensions of all Category 3 (within a year) procedures and selected Category 2 (within 90 days) procedures.

Figure 4: Number of admissions, by type, involving surgeries in Australia



Source: Australian Institute of Health and Welfare

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Technological advances

Advances in medical and scientific technology facilitates the introduction of new products which are often more efficient enabling wholesalers to charge higher prices. It also prompts customers to upgrade their equipment regularly to remain competitive amongst their peers, generating demand for industry products.

Distribution channel

Having good relationships with manufacturers is vital as it enables wholesalers to establish reliable supply with better terms, negotiate exclusive distribution rights of certain products and improve margins. It also gives wholesalers access to the latest products and technology which provides a competitive advantage in the market.

Foreign exchange

Fluctuation in foreign exchange rates has a direct and significant impact on industry purchase costs and margins as the majority of domestic demand is met by imports. The appreciation of Australian dollar over the past five years has enabled wholesalers to keep their purchase costs down and maintain profitability.

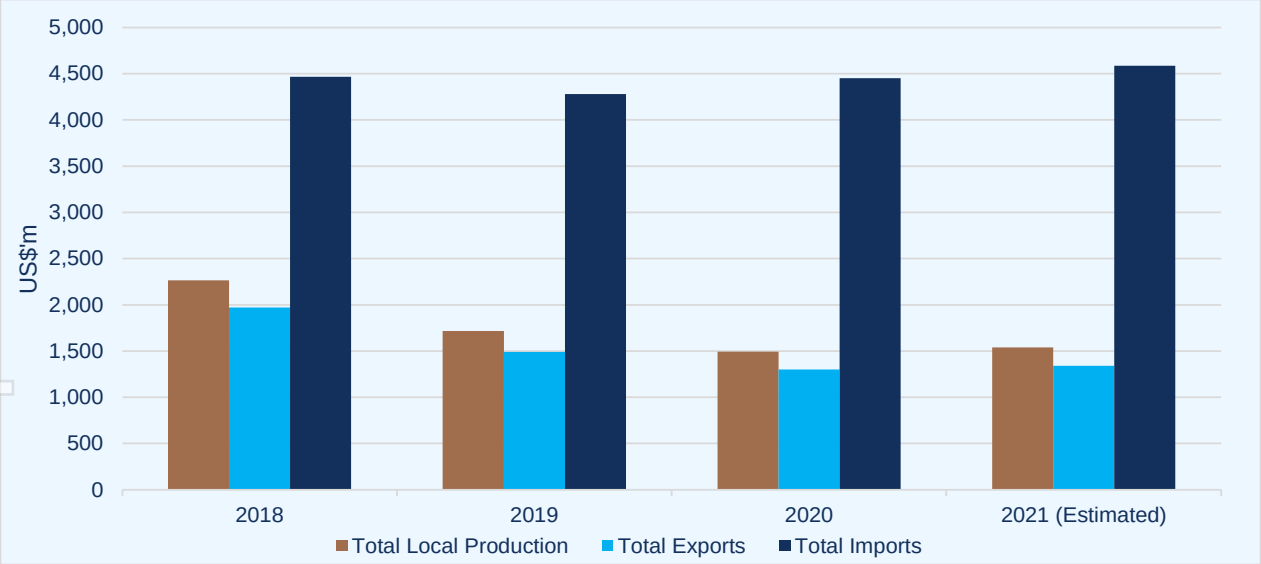
3.1.5. Competitive landscape

The industry is highly fragmented and comprises a large number of providers focussing on particular market segments. According to IBIS World, Medtronic Pty Ltd is the biggest player in the market holding approximately a 5% market share in 2021.

The low market concentration is a result of extensive and highly specialised product offerings which span from medical and surgical appliances such as X-ray machines, ultrasound machines and ventilators to consumables such as needles and bandages. It also includes scientific and professional equipment such as measuring equipment, laboratory apparatus and other instruments.

With limited domestic manufacturing capability, Australian equipment distributors rely heavily on imports to fulfil demand. Approximately 80% of products sold in the market are imported from overseas, primarily the US, Germany and China.

Figure 5: Medical equipment trade in Australia



Source: US Department of Commerce, International Trade Administration

As product innovation takes place at the manufacturer level, wholesalers compete largely on price, product quality and services.

3.1.6. Outlook

Industry revenue growth is forecast to continue at 2.5%[1] per annum over the next five years with the growing demand for medical services, and therefore medical equipment, driven by an ageing population, longer life expectancy and prevalence of chronic illness. The Government sector is also expected to increase its spending on healthcare services in response to changing social needs. Both public and private sectors are expected to increase investment in the health industry following the COVID-19 pandemic, to ensure scientific research and medical facilities are better equipped for the future. The Australian dollar is also anticipated to remain strong relative to the US dollar in the near term, boosting import volumes and accelerating industry expansion. Despite strong demand, profitability of industry participants will likely come under pressure from continued strong competition as well as industry trends toward wholesaler bypass as customers seek to reduce costs by dealing directly with manufacturers and manufacturers begin to cultivate direct customer relationships.

[1] *IBISWorld*

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3.2 South Korea

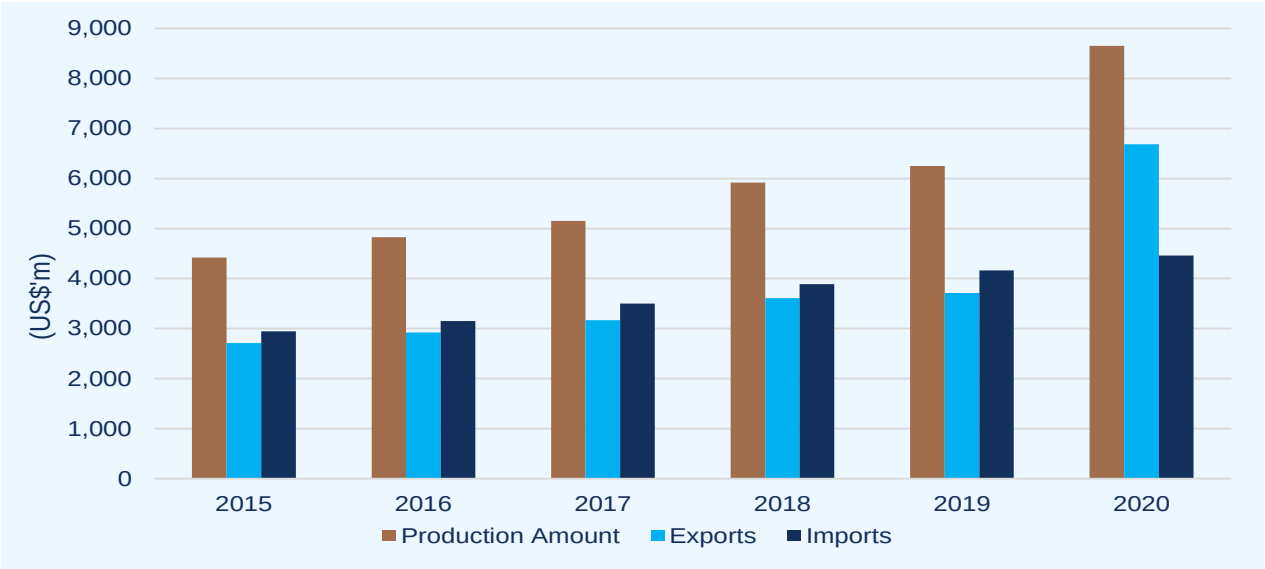
3.2.1. Overview

The medical equipment and devices industry in South Korea generated approximately US$6.5 billion in revenue in 2020. Domestic manufacturing capability centres around unsophisticated medical instruments such as surgical knives, syringe needles and sterilisers, whilst overseas suppliers fulfil demand for sophisticated equipment and appliances. Imports accounted for nearly 70% of the total market in 2020 with the US (43%), Germany (17%) and Japan (8%) being the primary importing countries.

According to Korea Health Industry Development Institute, hospitals tend to prefer foreign medical devices over domestic production due to historically poor product performance, brand reliability and lack of clinical verification of local products.

The industry has grown steadily in the last five years, at a CAGR of 7.4%. Industry growth is driven by higher demand for medical services from an ageing population, the shift in medical industry focus from treatment to prevention, as well as the emergence of new technologies.

Figure 6: South Korea medical devices industry



Source: Ministry of Food and Drug Safety

Historically, exports accounted for 60% of locally produced medical devices. The outbreak of COVID-19 in 2020 boosted global demand for medical devices such as face mask and test kits for containment of the virus contributing to an increase in domestic production and exports. Domestic production and exports have increased by 38% and 80% respectively between 2019 and 2020.

3.2.2. Outlook

The proportion of the total population aged 65 and over is expected to increase from 15.7% in 2020 to 25% by 2030. The median age is expected to increase from 43.7 to 49.5 over the same period. Changes in demographics and health profiles will continue to weigh on the health care system, increasing demand for medical services and equipment. The industry preference for foreign equipment and devices is expected to continue, further increasing import volumes.

The South Korean government is also actively facilitating the development and commercialisation of advanced medical devices by simplifying regulation and shortening processing time. The market size and industry profitability are likely to grow with the introduction of advanced products and equipment.

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3.3 Thailand

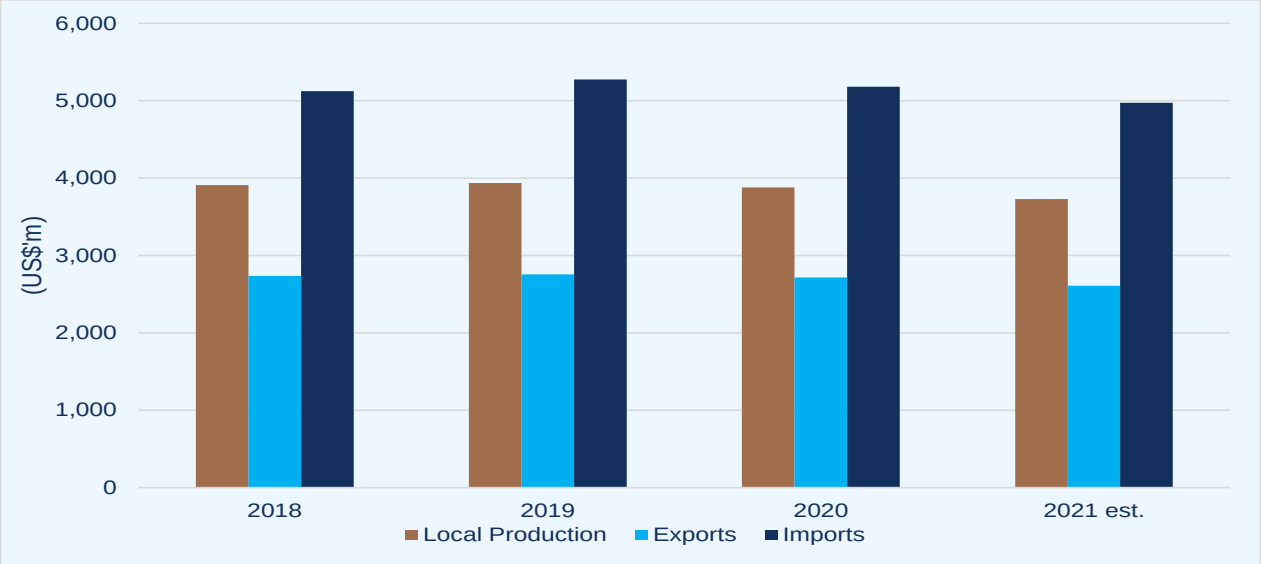
3.3.1. Overview

Thailand's medical device industry had a market size of approximately US$6 billion in 2020, with imports accounting for over 80% of the market. The most imported products include electromechanical medical devices, in vitro diagnostic devices, single-use devices, ophthalmic and optical devices and hospital hardware.

The industry saw steady growth prior to the onset of COVID-19 in 2020, primarily attributable to a high level of domestic health care expenditure stemming from an ageing population and prevalence of non-communicable diseases such as cardiovascular diseases. Medical tourism has also played a vital part in creating demand for medical equipment and supporting industry growth.

Thailand is one of the top destinations for medical tourists due to its high-quality health services and affordable costs. In 2019, approximately 3.5 million medical tourists visited Thailand for elective medical procedures and generated US$5.9 billion in revenue. However, this segment has suffered substantially from COVID-19 related restrictions since 2020.

Figure 7: Thailand medical devices industry



Source: Medical Devices Intelligence Unit (MEDIU), Thailand Office of Industrial Economics

The medical device market in Thailand has been relatively stable over the years. Whilst the COVID-19 pandemic increased local production of single-use devices such as personal protective equipment and face masks, total domestic production and exports declined slightly in 2020 due to a COVID-related production halt. The impact of the pandemic is expected to continue to weigh on the market in 2021.

3.3.2. Outlook

The medical device industry in Thailand is forecast to improve due to the return of medical tourists, coupled with persistent demand for health services from the ageing population and prevalence of chronic diseases. Many of the larger private hospitals such as Bangkok hospital are planning to increase their capacities to serve an increasing number of patients. An increase in health care infrastructure will create additional demand for industry products.

Government incentives in the medical device sector such as exemption of import duties on machinery are also likely to attract foreign investment, expanding domestic production capabilities and industry profit.

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4 PROFILE OF QUANTUM

4.1 Background

Quantum is an ASX listed healthcare company operating throughout Australasia. Quantum specialises in the distribution and maintenance of state-of-the-art medical imaging and patient treatment equipment and services, predominantly in the radiology and oncology sectors. Quantum is the authorised distribution partner for leading global healthcare manufacturers including Carestream, Philips, Samsung, IBA, Classys and Accuray.

Quantum also has a legacy renewable energy business which sells proprietary solar heat pump hot water systems. Government rebates for Quantum's energy products ceased ten years ago and the business has declined since this time. The business is currently break even and, prior to the announcement of the Proposed Transaction, Quantum was considering strategic options for the future of the energy business. Quantum also uses its energy technology in a licensed product called LegioGuard to eliminate legionella disease in aged care and hospital facilities.

4.2 History

A brief history of Quantum is set out in the timeline below:

Table 4: History of Quantum

Year	Event
1998	♦ Insight Oceania Pty Ltd ("**Insight Oceania**"), a medical device distribution company, is founded and commences distribution partnership with Philips.
2003	♦ Quantum Energy listed on the ASX
2006	♦ Quantum Energy merged with Insight Oceania
2010	♦ Samsung distribution agreement established
2013 – 2014	♦ Quantum acquires healthcare distribution and service businesses in Thailand and Korea
2017	♦ Appointment of John Walstab as Managing Director/CEO
2018	♦ Name changed to Quantum Health Group Limited
2019	♦ Investment in Quantum Vietnam
2020	♦ Acquisition of Carestream servicing businesses in Australia, New Zealand and the Philippines

Source: Quantum

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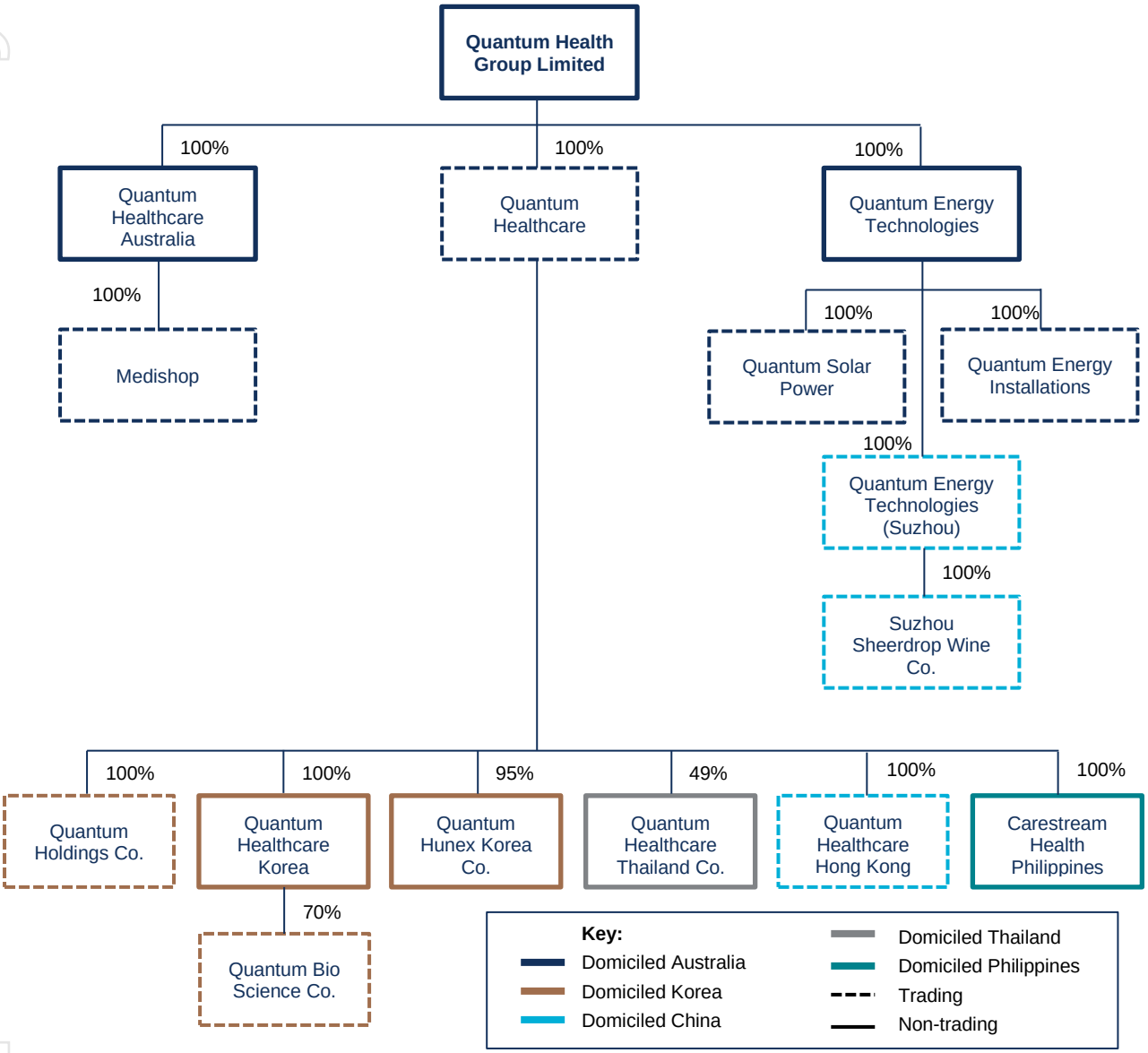
4.3 Group structure

Quantum has a number of operating and non-operating subsidiaries as set out in the figure below.

Figure 8: Quantum group structure



Source: Quantum

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4.4 Operations

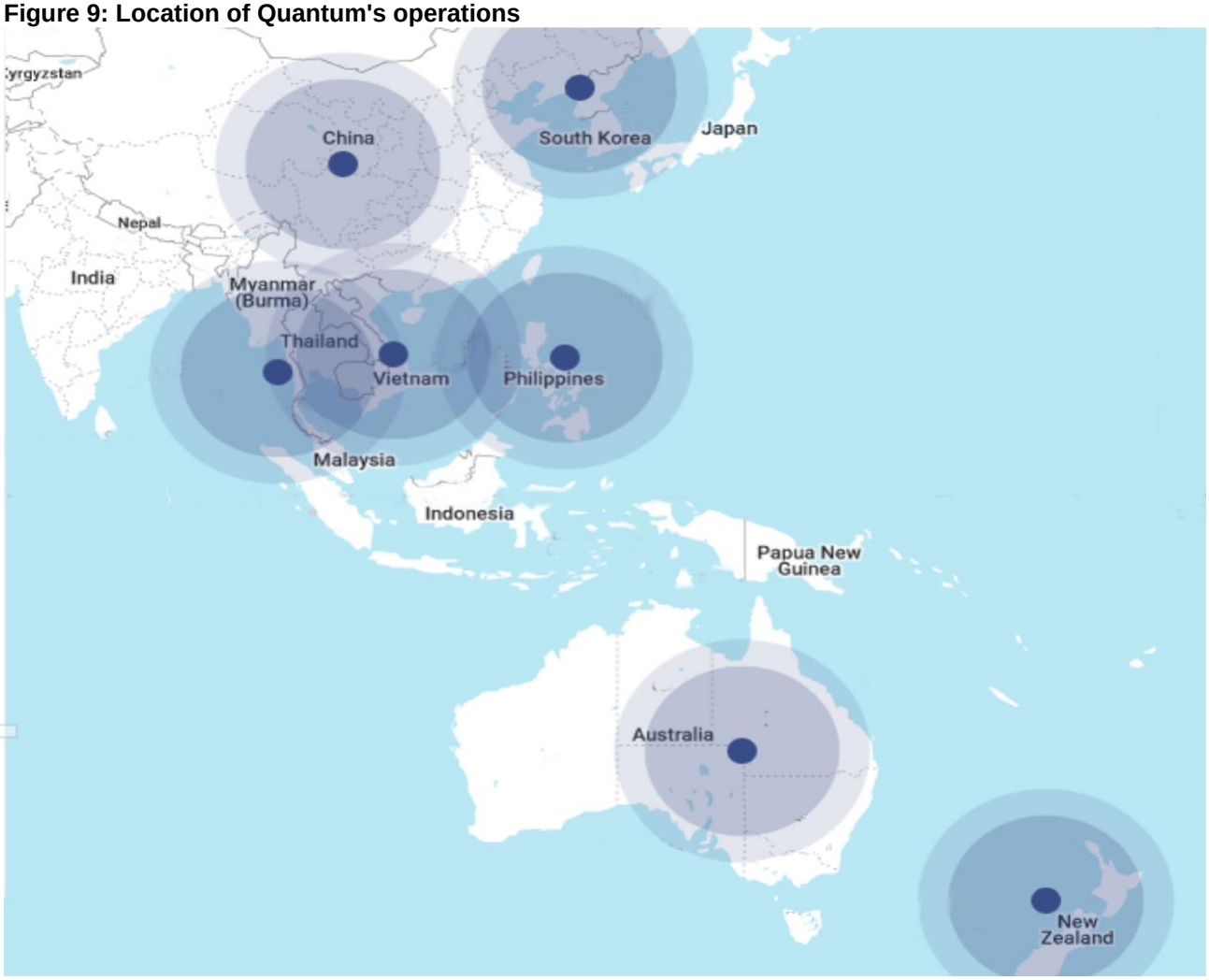
Medical equipment

Quantum's operations focus on two distinct areas, medical equipment sales and servicing of medical equipment. A summary of each component of operations is provided below:

- **Medical equipment sales:** Quantum has distribution agreements with ten high technology medical equipment manufacturers including Samsung, Carestream and Philips. A number of key distribution agreements have been in place for over ten years. Key distribution markets include Australia, New Zealand, Korea and Thailand. A summary of Quantum's distribution agreements is set out in Section 4.5 below.
- **Medical equipment services:** the service business employs over 60 trained field service engineers who service an installed equipment base of over 3,500 medical systems across Australasia. Quantum utilises a cloud based mobile/web call centre, customer portal and field service management tool to provide customer support and service auditing.

Quantum has operations in seven locations across the Asia Pacific region as set out on the map below.

Figure 9: Location of Quantum's operations



Source: Quantum

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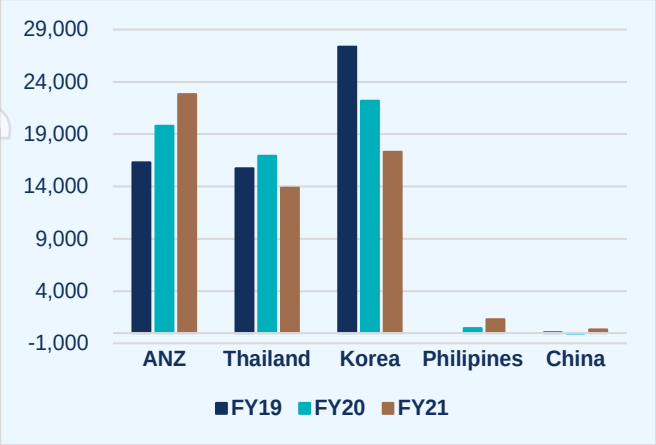
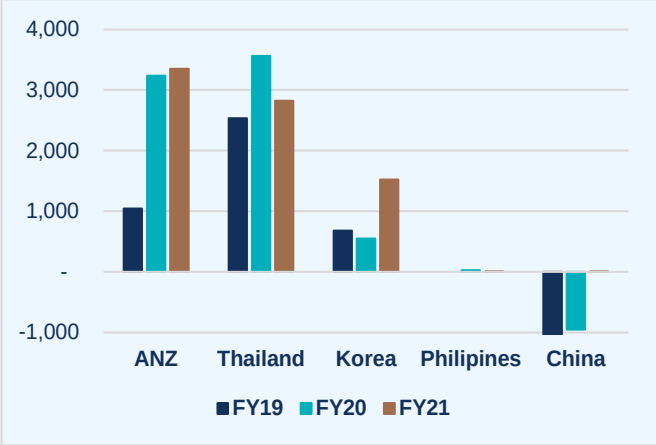
Revenue and profit by geographical segment for FY19 to FY21 is set out in the figures below.

Figure 10: Revenue by geographical segment



Source: Quantum

Figure 11: NPAT by geographical segment



Source: Quantum

In relation to the figure above we note:

- The Korean businesses are focussed on oncology treatment equipment and medical consumables. In FY19 and FY20, the Korean segment had the highest level of sales. However, profit margin in the Korean business is much lower than other segments due to the types of products sold. The decline in sales in Korea from FY19 to FY21 was due to a reduction in spending on high end equipment as a result of COVID-19.
- Sales and profit in ANZ have increased steadily over the period, primarily due to the acquisition of the Carestream servicing business. Furthermore, in FY19 and FY20 the Australian segment included losses from the legacy energy business which is now breaking even.
- The business in Thailand is focused on diagnostic ultrasound equipment and aesthetics equipment and consumables. The decline in revenue in FY21 was primarily due to a reduction in the sale and servicing of aesthetic equipment due to COVID-19 restrictions imposed upon the businesses that use these types of equipment. The Thai business is the highest margin segment.
- The business in the Philippines was established upon the acquisition of the Carestream service business on 1 January 2021 and as such made a relatively small contribution to revenue and no profit in FY21.
- The business in China is solely related to the production of products for the legacy energy business. The Chinese business made losses of $1.45 million in FY19 and $0.95 million in FY20 before returning to breakeven in FY21.

Energy and Water Technology

Quantum has a legacy renewable energy business which produces solar heat pump hot water systems under licence in China which are sold to customers across Australia and Asia

The energy business has also established a partnership to form Quantum LegioGuard in Australia in 2017. LegioGuard is a dual effect heat pump technology that sanitises hot and cold water to prevent legionella outbreaks. Quantum intends to distribute the Quantum LegioGuard product in Australia and New Zealand. To date four systems have been installed in Australia. The Quantum energy business, including Quantum LegioGuard, is currently operating at break even, although there are identified mid-term opportunities for a larger scale roll-out of Quantum LegioGuard in Australia.

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4.5 Partnerships

A summary of Quantum's distribution partnerships is set out in the table below:

Table 5: Quantum's commercial partnerships

Supplier	Products	Country	Sales	Service	Years Tenure
ACCURAY	Radiotherapy treatment	Korea	✓	✓	9
iba	Pet Cyclotrons	ANZ	✓	✓	15
		Thailand	✓	×	3
		Korea	✓	✓	3
SAMSUNG	Ultrasound	Thailand	✓	✓	12
	Ultrasound	Australia	×	✓	8
	Digital X-Ray	Australia	×	✓	6
Carestream	Digital Radiography	Australia	✓	✓	2
		Philippines	×	✓	2
Guerbet	Radiology Injectors Consumables	Korea	✓	✓	12
PHILIPS	Radiation Planning Systems	ANZ	✓	✓	18
	Nuclear Medicine		×	✓	
	PET		✓	✓	
CLASSYS	Aesthetics (Ultraformer III system)	Thailand	✓	✓	4
		Vietnam			1
wellcomet	Aesthetics (LDM-MED system)	ANZ	✓	✓	3
SPECTRUM DYNAMICS	Nuclear Medicine (D-SPECT gamma camera)	ANZ	×	✓	6
		Korea	✓	✓	3
HITACHI Inspire the Next	Radiology CT Scanners	ANZ	×	✓	2
CDR	Oncology		✓	×	6

Source: Quantum

As set out above, Quantum's has developed strong and lasting distribution relationships, primarily in the high end radiology and oncology equipment markets.

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In addition to the partnerships set out above, Quantum have identified a number of new and potential partnerships in the medical IT and artificial intelligence space, as summarised below:

- **Central data networks:** new partnership to expand the range of picture archiving and communications systems, radiology information systems and other medical IT solutions in Australia and Asia.
- **Coreline Soft:** Quantum have identified Coreline Soft as an innovative partner to introduce to Australia and New Zealand. Coreline Soft are a Korean based software development company specialising in medical imaging solutions and therapy equipment based on leading edge image processing algorithms and 3D visualisation techniques.
- **Lunit:** artificial intelligence-based imaging software for the Australian and New Zealand markets.

4.6 Key Personnel

The Board of Directors of Quantum comprises:

Table 6: Directors of Quantum

Directors	Experience
John Walstab **Managing Director / CEO**	John has over 38 years' experience in medical imaging equipment distribution across Australia and Asia. He is the founder of Quantum Healthcare (InSight Oceania Pty Ltd). Prior to joining Quantum in 2003 he was the managing director of ATL Australia (Philips Medical Systems Australia).
Drew Townsend **Chairman and Non-Executive Director**	Drew has over 28 years' experience in Australian and international accounting and finance and is currently a partner of Hall Chadwick Australia. He is a Member of the Institute of Chartered Accountants Australia and New Zealand and the Institute of Company Directors.
Alan McCarthy **Non-Executive Director**	Alan has more than 30 years' experience in public and private health services across the Asia Pacific region. He was previously the CEO at Alpenglow Australia and SRG NZ as well as the managing director of Philips and Cardinal Health ANZ. Other pervious appointments include vice-president at CareFusion and general manager of Diagnostic Imaging at Mayne Health.
Stephanie Wen **Non-Executive Director**	Stephanie is an experienced corporate lawyer with broad experience in Asia and Australia including cross-border legal advisory, corporate companies, public/private mergers and acquisitions and capital raising for ASX listed companies.

Source: Quantum

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4.7 Financial performance

The audited statements of financial performance for the financial years ending 30 June 2019, 2020 and 2021 are set out in the table below.

Table 7: Quantum's financial performance

$'000	FY19	FY20	FY21
Sale of goods	43,477	39,876	32,455
Services revenue	14,478	18,433	22,658
Other Revenue	1,161	877	486
Total Revenue	**59,116**	**59,186**	**55,599**
Cost of Sales	(34,990)	(31,032)	(26,653)
Gross Profit	**24,126**	**28,154**	**28,946**
Expenses			
Employee benefits expense	(11,171)	(11,337)	(11,421)
Advertising and promotion expenses	(704)	(847)	(485)
Legal fees	(75)	(138)	(121)
Research and development expenditure	(145)	(77)	(83)
Travel expenses	(1,034)	(1,052)	(639)
Motor vehicle expenses	(395)	(645)	(584)
Warranty expenses	(487)	(559)	(764)
Telephone & internet	(103)	(230)	(276)
Consultants	(725)	(645)	(805)
Freight & delivery expenses	(144)	(327)	(673)
Occupancy (rent) expenses	(912)	(221)	(147)
Insurance	(292)	(302)	(295)
Foreign exchange gain (loss)	45	(222)	340
Fair value gain (loss) on financial assets	(22)	67	99
Other expenses	(3,945)	(2,286)	(2,348)
EBITDA	**4,017**	**9,333**	**10,744**
Depreciation	(628)	(684)	(668)
Amortisation of right of use assets	-	(784)	(745)
Other amortisation	-	(85)	(128)
EBIT	**3,389**	**7,780**	**9,203**
Interest income	313	212	72
Interest expense	(1,092)	(757)	(701)
Net profit before tax	**2,610**	**7,235**	**8,574**
Tax (expense) / benefit	197	(816)	(864)
Net profit after tax	**2,807**	**6,419**	**7,710**
Other metrics			
Gross Margin %	*40.8%*	*47.6%*	*52.1%*
EBITDA Margin %	*6.8%*	*15.8%*	*19.3%*
EBIT Margin %	*5.7%*	*13.1%*	*16.6%*

Source: Quantum

In relation to the historical financial performance of Quantum set out above, we note the following:

- Over the last three years there has been a decline in revenue from sale of goods primarily driven by a COVID-19 related decrease in sales in Korea and Thailand (deferred large equipment sales in Korea and reduction in sales of aesthetics equipment and consumables in Thailand as clinics have been closed). This has been partially offset by an increase in higher margin service revenue. The increase in service revenue is primarily due to the December 2019 acquisition of the service businesses of Carestream in Australia, New Zealand and the Philippines.
- Other income primarily relates to an insurance payment received over FY19 and FY20, job-keeper payments in FY20 and FY21 and rental income from an office building owned in Korea.

- Gross margin has increased from 40.8% in FY19 to 52.1% in FY21 primarily due to the shift towards the higher margin service business.
- Advertising and promotion expenses declined in FY21 due to a COVID-19 related decline in conferences and other marketing activities.
- Travel expenses declined in FY21 due to reduced travel because of the COVID-19 pandemic. Management expect that travel expenses will increase once international travel resumes.
- Warranty expenses are primarily related to sales in the energy business. The increase in warranty expense is in line with increasing sales in this business.
- The increase in freight and delivery expenses in FY21 was due to increasing global freight prices and the increased sales of Carestream products.
- Occupancy expenses declined and depreciation of right of use assets increased in FY20 due to the application of AASB16. AASB16 requires right of use assets to be recognised on the balance sheet for rental agreements and an annual depreciation expense to be recognised through profit and loss.
- Quantum has operations in Thailand, Korea, the Philippines and New Zealand which generate income and expenses in foreign currency. Quantum does not hedge foreign exchange risk, however most customer purchase contracts are executed at substantially the same time as the order with the supplier to mitigate risk.
- EBIT margin has improved substantially over the period. However, EBIT margin in FY19 was negatively impacted by losses and restructuring costs in the energy business totalling $2.7 million.

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4.8 Financial position

The audited statements of financial position as at 30 June 2019, 2020 and 2021 are set out in the table below.

Table 8: Quantum's financial position

$'000	30-Jun-19	30-Jun-20	30-Jun-21
Current assets			
Cash and cash equivalents	4,327	8,765	11,945
Trade and other receivables	10,646	14,963	14,842
Inventories	9,147	9,464	8,147
Financial assets	661	1,043	1,176
Other	3,708	3,870	4,499
Total current assets	**28,489**	**38,105**	**40,609**
Non-current assets			
Property, plant and equipment	1,570	1,700	1,137
Right-of-use assets	-	1,414	668
Investment property	2,444	2,444	2,338
Deferred tax assets	3,212	3,137	3,078
Goodwill and intangible assets	19,983	22,719	22,591
Financial assets	5,093	2,628	2,283
Other	570	1,906	1,701
Total non-current assets	**32,872**	**35,948**	**33,796**
Total assets	**61,361**	**74,053**	**74,405**
Current liabilities			
Trade and other payables	(8,952)	(11,401)	(11,102)
Contract liabilities	(1,836)	(6,840)	(3,918)
Borrowings	(12,412)	(8,888)	(7,277)
Lease liabilities	-	(929)	(499)
Current tax liabilities	(403)	(443)	(839)
Short term provisions	(1,704)	(2,249)	(2,597)
Total current liabilities	**(25,307)**	**(30,750)**	**(26,232)**
Non-current liabilities			
Trade and other payables	-	(880)	(484)
Contract liabilities	(178)	(237)	(121)
Borrowings	(641)	(4)	(74)
Lease liabilities	-	(476)	(106)
Employee benefits	(185)	(443)	(113)
Defined benefit plans	(956)	(335)	-
Total non-current liabilities	**(1,960)**	**(2,375)**	**(898)**
Total liabilities	**(27,267)**	**(33,125)**	**(27,130)**
Net assets	**34,094**	**40,928**	**47,275**

Source: Quantum

In relation to the historical financial position of Quantum set out above, we note the following:

- The increase in trade and other receivables in FY20 was due to increased credit terms provided to clients in Thailand to drive sales of aesthetics products.
- The inventory balance has declined slightly over the three years in line with sale of goods and the strategy to focus on the higher margin service business.
- Current and non-current financial assets are primarily comprised of term deposits required as security for borrowings in Korea.

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- Other current and non-current assets are primarily comprised of guarantee deposits for cyclotron sales transactions where income and expenses are not recognised until completion.
- Right of use assets and lease liabilities were recognised upon the adoption of AASB 16 in FY20. Quantum leases land and buildings for its offices and warehouses under lease agreements of between three to five years with options to extend. Quantum also leases office equipment and vehicles.
- Investment property, relates to a freehold office building in Korea, which is no longer occupied by Quantum due to a restructure of one of the Korean businesses prior to FY19.
- Deferred tax assets primarily relate to employee liabilities, impairment provisions, accruals and other provisions.
- The goodwill and intangibles balance primarily relates to goodwill recognised on a number of historical acquisitions.
- Contract liabilities relate to the portion of contract services which remain outstanding at the balance date for which payment has already been received. These amounts will be recognised as revenue which the performance obligations are satisfied.
- Of the $7.2 million in current borrowings, $5.4 million is unsecured. Of the unsecured borrowings, $3.3 million is owed to related parties ($2.1 million to Quantum director John Walstab and $1.2 million to Quantum director Drew Townsend).
- Short and long term provisions relate to employee benefits and warranty provisions.
- Quantum has defined benefit pension plans in Korea and the Philippines. The fair value of the plan assets exceeded the present value of the retirement benefit obligation as at 30 June 2021 and as such was recorded as an asset within other non-current assets.

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4.9 Cash flows

The audited statements of cash flows for the financial years ending 30 June 2019, 2020 and 2021 are set out in the table below.

Table 9: Quantum's cash flows

$'000	FY19	FY20	FY21
Receipts from customers	61,536	62,189	65,098
Payments to suppliers and employees	(58,591)	(52,580)	(57,457)
Interest received	12	94	72
Finance costs	(427)	(234)	(287)
Interest paid lease liabilities	-	(21)	-
Income tax paid	(1,293)	(321)	(402)
Net cash flows from operating activities	**1,237**	**9,127**	**7,024**
Proceeds from sale of property, plant and equipment	-	209	19
Purchase of property, plant and equipment	(489)	(879)	(174)
Dividends received from unrelated entity	14	-	-
Payments for purchase of businesses (net)	(1,603)	(1,670)	-
Payments for financial assets	(978)	(1,324)	(687)
Proceeds from sale of financial assets	1,902	947	(615)
Net cash flows used in investing activities	**(1,154)**	**(2,717)**	**(1,457)**
Repayment of lease liabilities	-	(784)	(835)
Repayment of borrowings	(1,180)	(1,188)	(1,522)
Net cash used in financing activities	**(1,180)**	**(1,972)**	**(2,357)**
Net increase/(decrease) in cash held	**(1,097)**	**4,438**	**3,210**
Cash at the beginning of the financial year	5,424	4,327	8,765
Cash at the end of the financial year	**4,327**	**8,765**	**11,975**

Source: Quantum

In relation to the historical cash flows of Quantum set out above, we note the following:

- Payments for purchase of businesses relates to the acquisitions of the businesses in Thailand and Korea in FY19 and the service business of Carestream ANZ and the Philippines in FY20.
- Payments for financial assets relate to term deposits required for guarantees.
- Proceeds from the sale of financial assets relate to sales of shares and release of term deposits.
- Repayment of lease liabilities primarily relates to rental payments on leased properties.

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4.10 Capital structure and shareholders

As at 26 November 2021 Quantum had a total of 1,128,308,291 ordinary shares on issue. The following table sets out details of Quantum's substantial shareholders as at that date:

Table 10: Quantum's substantial shareholders

Shareholder name	Number of shares	% interest
Mr John Walstab	514,712,393	45.6%
Drew Townsend	130,644,197	11.6%
Mr Phillip Sidney	40,000,000	3.5%
Other Shareholders	442,951,701	39.3%
Total	**1,128,308,291**	**100.0%**

Source: Quantum

4.11 Share trading

The following chart shows the share market trading of Quantum shares for the past three years:

Figure 12: Quantum's share performance

Source: CapIQ

In relation to the trading of Quantum shares over the last three years we note the following:

- Shares are thinly traded with an average daily value traded of approximately $21,000 (excluding outliers) from October 2018 to the announcement of the Proposed Transaction.
- Shares primarily traded between $0.02 and $0.03 from October 2018 to mid-December 2019.Trading activity increased to $0.04 per share after the announcement of the acquisition of the remaining 20% of Quantum Healthcare Pty Ltd in December 2019.
- The fall and rise in share price in March and April 2020 are likely related to market selloff due to COVID-19, followed by market recovery.
- From May 2020 to November 2021 the share price rose from around $0.04 to around $0.07. During this period Quantum announced positive earnings results to FY20 and FY21 and market sentiment improved following the initial impacts of COVID-19.
- Since October 2020, shares have primarily traded between $0.05 and $0.07 on the back of positive earnings results in FY20 and FY21.

- Large trades in April 2021 and October 2021 were as a result of the sales of large parcels of shares by a substantial shareholder, Mr Phillip Sidney. Between April 2021 and October 2021, Mr Sidney reduced his shareholding from 12.75% to 3.5%.
- After the announcement of the Proposed Transaction on 8 November 2021, Quantum shares traded down from a close of $0.076 on the announcement date to a close of $0.069 on the day after the announcement, with a higher than average volume traded. Between 9 November and 26 November 2021, Quantum shares have traded between $0.065 and $0.070, with a volume weighted average price of $0.069.

4.12 Outlook

Whilst healthcare in Australia is a growing industry, it is a relatively small market globally and competition between distributors is high. This is particularly the case in the radiology market which is the key market for Quantum. As such, growth prospects for Quantum are centred around expansion of its Asian business through increasing distribution partnerships in existing locations and expanding geographically in the region. Recently, growth of the Asian business has been hampered by travel restrictions due to COVID-19 and lack of access to capital. Furthermore, Quantum is currently in advanced stage discussions for the first roll-out of the Quantum LegioGuard system for legionella control in hospital and aged care facilities. If this deal is finalised, and roll out runs smoothly, this could provide a significant future opportunity for Quantum. On a stand-along basis, Quantum's future growth is expected to be organic and concentrated in Quantum's Asian subsidiaries.

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5 PROFILE OF PARAGON

5.1 Background

Paragon is an ASX listed healthcare company operating throughout Australia and New Zealand. Originally listed as Plexus International Limited in 2004, the company changed its name to Paragon Care Limited in 2008 and embarked on an acquisition strategy to pursue opportunities in the health and aged care sectors. Today, Paragon specialises in providing medical equipment, devices and consumables to the healthcare market as well as equipment repair, maintenance and total equipment management services through Paragon Care Service & Technology.

5.2 History

A brief history of Paragon is set out in the table below:

Table 1: History of Paragon

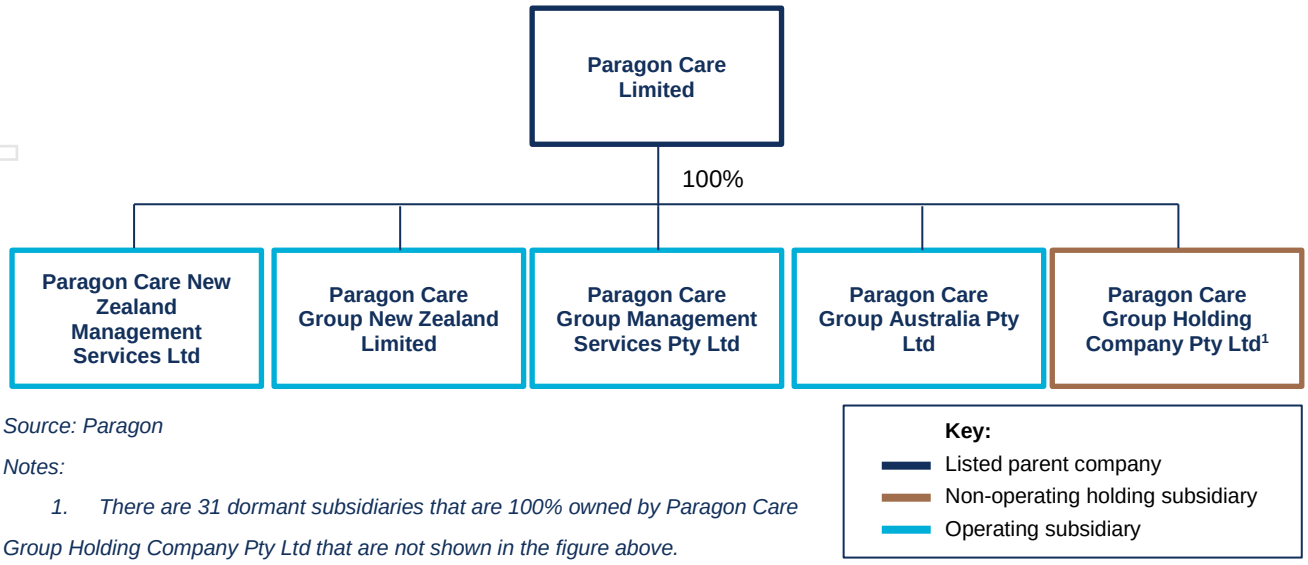
Year	Event
2008	♦ Company changed its name to Paragon Care Limited and embarked upon a strategy of pursuing investment opportunities in the health and aged care sectors.
2009 - 2018	♦ Acquired approximately 20 businesses involved in the supply and service of medical equipment and products.
2019	♦ New CEO, Phil Nicholl, is appointed.
2021	♦ Immulab, a subsidiary of Paragon, enters a joint venture with Jiangsu Zojiwat Bio-Pharmaceuticals Co. Ltd for the distribution of Immulab's proprietary blood bank reagents in China.

Source: Paragon, CapIQ

5.3 Organisational structure

The organisational structure of Paragon is set out in the figure below.

Figure 13: Paragon organisational structure



Source: Paragon

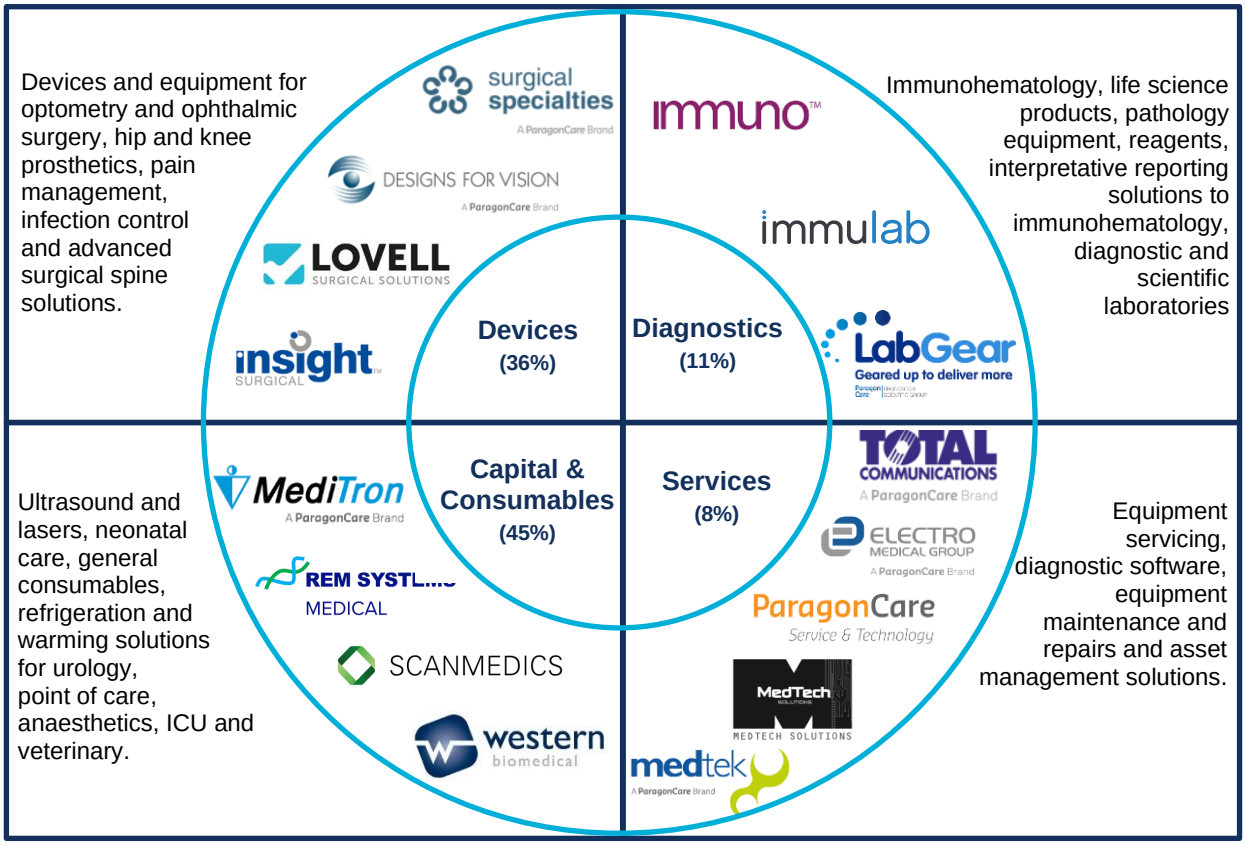
Notes:

1. *There are 31 dormant subsidiaries that are 100% owned by Paragon Care Group Holding Company Pty Ltd that are not shown in the figure above.*

5.4 Operations

Historically, Paragon has pursued a growth through acquisition strategy which saw Paragon acquire 17 businesses between October 2014 and November 2018. The rapid pace of acquisition lead to issues with enterprise resource planning, unexpected costs, increased working capital investment and other inefficiencies. In FY19 and FY20, Paragon undertook a restructuring plan with the aim of streamlining business processes, reducing investment in working capital and cost reduction. As a result, Paragon has implemented a structure, which organises each of the acquired businesses under four strategic business units as set out in the figure below.

Figure 14: Paragon four pillars



Source: Paragon; percentages relate to FY21 revenue contributions.

The restructure program has resulted in $7 million in annualised cost savings, and a $22.2 million increase in operating cash flow in FY21 through permanent reduction in working capital investment and improved profit margins.

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Paragon currently distributes products for over 100 original medical equipment manufacturers from around the world. Key products distributed by Paragon are summarised in the table below:

Table 11: Paragon products

Products	Description
Critical Care	Provider of clinical technology solutions at the point of care. This includes POC ultrasounds, infection control, pain management, infusion therapy, temperature management and enteral feeding.
Diagnostics	Provider of automated equipment, reagents and services to specifically support areas such as autoimmunity, microbiology, molecular, urinalysis, diabetes and fertility.
Eye Care	Specialist providers of diagnostic and surgical products to ophthalmology, optometry which also include neonatal vision screening and procedural kits.
Medical Products & Consumables	Provides a range of medical consumables for surgery, ophthalmology, gynaecology, heart and lung therapies, DNA testing and theatre including covers, needle guides, procedural kits, enteral feeding, oncology delivery, infusion therapy and infection control.
Neonatal	Provides screening, diagnostic and treatment solutions within brain monitoring, NICU video monitoring, temperature management, procedural kits, infusion therapy, enteral feeding, neonatal vision screening, newborn hearing screening, jaundice management, breast milk tracking and electrodes.
Orthopaedics	Delivers surgical solutions and products for hip & knee arthroplasty, shoulder, operating room, pain management and biologics.
Surgical	Provides equipment and supplies for surgical procedures such as neurology, hepatobiliary, renal, colorectal, vascular, laparoscopic and robotic procedures.
Technology & Connectivity	Provides IT infrastructure solutions for healthcare facilities including nurse call reporting, CCTV, access control, voice communications, voice mobility and 24/7 helpdesk service and maintenance.
Urology	Provides complete urology solutions from ultrasound, lasers and shockwave therapy, consumables, infection control, pain management and procedural kits.
Veterinary	Provides a range of medical equipment, products and services to veterinarians, universities, research facilities and zoos, including therapeutic lasers, centrifuges, POC diagnostics, oncology delivery and IV lines and fluid therapy,

Source: Paragon

Paragon also provides services for its various products, systems and applications, maintaining their efficiency and extending their useful life. This includes medical equipment repair and maintenance, contracts and warranty.

5.5 Key personnel

The Board of Directors of Paragon comprises:

Table 12: Directors of Paragon

Directors	Experience
Shane Tanner **Chairman**	Shane has over 25 years of experiences within healthcare and was one of the co-founders of Paragon. He was previously the CEO of Symbion Health and chairman of Vision Eye Institute and is now chairman of Guardian Alphabet Holdco Pty Ltd (previously Zenitas Healthcare Limited).
Geoffrey Sam OAM **Non-Executive Director**	Geoffrey has previously held numerous board positions on ASX listed companies including Hutchinson Childcare, Money 3 and currently EarlyPay Limited (previously CML Group Limited). He was also the co-founder and director or HealtheCare Australia Pty Ltd, a private hospital group comprising of 35 hospitals and a community nursing business throughout Australia.
Brent Stewart **Non-Executive Director**	Brent has previously held numerous senior executive and board roles over the last 25 years, including establishing and growing Market Equity Pty Ltd prior to an acquisition by Aegis PLC. He also occupies non-executive director roles at HBF Health Ltd, Etherington Inc and Argonaut Ltd.
Mark Simari **Non-Executive Director**	Mark has over 12 years of Board experience in a diverse range of organisations and not-for-profits. He was also previously the CEO, managing director and co-founder of Paragon and was instrumental in growing Paragon.

Source: Paragon

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5.6 Financial performance

The audited statements of financial performance for the financial years ending 30 June 2019, 2020 and 2021 are set out in the table below.

Table 13: Paragon's financial performance from continuing operations

$'000	FY19	FY20	FY21
Revenue	**236,009**	**231,689**	**235,840**
Cost of sales	(140,981)	(144,874)	(145,527)
Gross Profit	**95,028**	**86,815**	**90,313**
Other income	1,162	131	1,490
Expenses			
Employee	(49,261)	(40,914)	(47,226)
Distribution	(4,459)	(4,186)	(6,331)
Marketing	(2,665)	(3,434)	(911)
Occupancy	(1,336)	(1,269)	(1,398)
Other operating expenses	(8,437)	(14,362)	(10,937)
EBITDA[1]	**30,032**	**22,781**	**25,000**
Depreciation and amortisation	(10,008)	(8,053)	(6,200)
Impairment of other assets	(2,335)	(14,016)	-
Impairment of goodwill	-	(54,235)	-
Provision for obsolescence of inventory	-	(5,702)	-
Fair value gain/(loss) on financial assets	-	(4,577)	1,525
Other Abnormal Expenses	-	(6,526)	-
EBIT	**17,689**	**(70,328)**	**20,325**
Finance income	575	189	18
Finance costs	(5,949)	(7,064)	(8,012)
Profit before tax	**12,315**	**(77,203)**	**12,331**
Tax (expense) / benefit	(3,453)	5,603	(4,052)
Profit after tax	**8,862**	**(71,600)**	**8,279**
Other metrics			
Gross Margin %	*40.3%*	*37.5%*	*38.3%*
EBITDA Margin %	*12.7%*	*9.8%*	*10.6%*
EBIT Margin %	*7.5%*	*-30.4%*	*8.6%*

Source: Paragon

Notes:

1. *EBITDA is not reported in Paragon's audited statements of financial performance. The EBITDA figures shown above have been provided by Paragon and differ to the EBITDA figures reported in the annual reports of Paragon for the following reasons:*
   - ***FY19:** finance income and impairment of other assets are included in the EBITDA figure reported in the annual report.*
   - ***FY20:** finance income is included and operating expenses are $67,000 higher (due to different classification of abnormal expenses) in the EBITDA figure report in the FY20 annual report.*
   - ***FY21:** finance income and gain on financial assets are included in the EBITDA figure reported in the FY21 annual report.*

In relation to the historical financial performance of Paragon set out above, we note the following:

- Revenue has been relatively stable over the past three years. Some product lines were impacted by COVID-19 which led to a reduction in elective surgeries and restricted access to aged care facilities. These challenges were somewhat offset by increased volumes in other areas such as personal protective equipment and swabbing consumables. Furthermore, significant growth was experienced by the New Zealand business as New Zealand navigated the COVID-19 landscape with less frequent interruptions than Australia.

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- In FY19 other income resulted from a write-back of contingent consideration in relation to the acquisition of Labgear Pty Ltd. In FY20 other income related to rental concessions arising from COVID-19. In FY21 other income primarily related to a one-off payment received in relation to the settlement of contractual and other disputes.
- Gross margins were negatively impacted by COVID-19, in particular lower sales in the higher margin specialty devices and services divisions. Gross margin was slightly higher in FY21 as elective surgery volumes began to rise.
- In FY21, Paragon reclassified some of its expenses. To the extent possible we have reclassified FY19 expenses on the same basis as FY20 and FY21.
- COVID-19 contributed to increasing freight costs both domestically and internationally which resulted in significantly higher distribution costs on FY21.
- The decline in marketing expenses in FY21 was due to COVID-19 as much of Paragon's marketing expenses relate to medical conferences which were cancelled.
- The decline in other expenses in FY21 was primarily due to Paragon's cost rationalisation program that expects to deliver annualised savings of approximately $7 million, much of which is reflected in FY21 earnings.
- Paragon derives approximately 20% of their revenue from outside of Australia, whereby income and expenses are denominated in their local currencies. Paragon's risk management policy aims to hedge 20% to 100% of anticipated foreign currency transactions within the next 24 months.
- EBIT margin has improved over the period. However, EBIT margin in FY20 was significantly impacted by the $54.2 million impairment of goodwill and $14.0 impairment of other assets associated with the restructure of business operations. Paragon is targeting long term EBITDA margins of 15%.

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5.7 Financial position

The audited statements of financial position as at 30 June 2019, 2020 and 2021 are set out in the table below.

Table 14: Paragon's financial position

$'000	30-Jun-19	30-Jun-20	30-Jun-21
Current assets			
Cash and cash equivalents	34,224	24,505	33,197
Trade and other receivables	44,133	31,573	26,201
Inventories	51,407	46,662	51,578
Income tax refund due	5,736	70	407
Other	2,430	1,694	1,829
Non-current assets classified as held for sale	-	1,800	-
Total current assets	**137,930**	**106,304**	**113,212**
Non-current assets			
Receivables	574	-	-
Property, plant and equipment	13,056	7,184	7,464
Right-of-use assets	20,923	14,265	9,032
Intangibles	204,321	149,660	151,374
Deferred tax	7,392	14,757	10,838
Total non-current assets	**246,266**	**185,866**	**178,708**
Total assets	**384,196**	**292,170**	**291,920**
Current liabilities			
Trade and other payables	(47,947)	(26,921)	(36,100)
Borrowings	(10,136)	(16,767)	(21,794)
Lease liabilities	(3,031)	(3,722)	(3,648)
Derivative financial instruments	-	(5,711)	(3,047)
Employee benefits	(4,296)	(4,572)	(4,901)
Vendor conditional payables	-	(15,331)	-
Other	(7,462)	(11,853)	(12,720)
Total current liabilities	**(72,872)**	**(84,877)**	**(82,210)**
Non-current liabilities			
Borrowings	(89,243)	(82,159)	(80,471)
Lease liabilities	(19,221)	(12,380)	(7,098)
Employee benefits	(871)	(474)	(623)
Vendor conditional payables	(9,673)	-	-
Total non-current liabilities	**(119,008)**	**(95,013)**	**(88,192)**
Total liabilities	**(191,880)**	**(179,890)**	**(170,402)**
Net assets	**192,316**	**112,280**	**121,518**

Source: Paragon (other current assets include investments and derivative financial instruments)

In relation to the historical financial position of Paragon set out above, we note the following:

- The increase in inventory in FY21 was largely due to an increase in stock in transit due to global shipping delays. FY21 levels of raw materials and finished goods were comparable to FY20.
- The declining debtors balance is due to management focus on improving the working capital cycle of the business.
- Non-current assets held for sale refer to land and buildings located in Victoria that were sold on 3 August 2020.
- Impairment expenses totalling $2.7 million were recognised against leasehold property, plant and equipment in FY20.

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- Right of use assets relate to leased office space under agreements of between one to eight years, some with options to extend. In FY21 there was a reduction of $3.3 million to the balance of right to use assets as a result of modifications to lease terms.
- The reduction in the intangibles balance was due to impairment expenses recognised against goodwill, contracts and software as a result of the restructure of the business which rationalised 14 separate businesses into the four pillars described in Section 5.4 above.
- The deferred tax asset is primarily attributed to temporary differences associated with employee benefits, accrued expenses and inventories.
- The movement in trade payables is primarily attributable to increased stock in transit and timing of year-end payments.
- Current borrowings primarily relate to a trade finance facility with National Australia Bank ("**NAB**") with a limit of $28.5 million. Under this facility, individual import transactions are financed for a period not exceeding 180 days after the arrival of goods in Australia.
- Derivative financial instrument liabilities relate to forward foreign exchange and interest rate hedging activities.
- Vendor conditional payables related to potential earn-out payments for past acquisitions. In FY21 the final earn-out instalments were paid.
- Other current liabilities primarily related to accrued expenses.
- Non-current borrowings relate to an $86.6 million facility with NAB. In May 2021, Paragon renegotiated the loan terms with NAB and entered into a new three-year contract extending to July 2024.

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5.8 Cash flows

The audited statements of cash flows for the financial years ending 30 June 2019, 2020 and 2021 are set out in the table below.

Table 15: Paragon's cash flows

$'000	FY19	FY20	FY21
Receipts from customers (inclusive of GST)	261,874	265,178	264,516
Payments to suppliers and employees (inclusive of GST)	(246,629)	(260,020)	(232,509)
Government assistance received (JobKeeper subsidy)	-	998	2,985
Other income	-	-	1,413
Interest received	381	189	18
Interest and other finance costs paid	(5,959)	(6,107)	(8,012)
Income taxes refunded	-	5,049	-
Income taxes paid	(8,509)	-	(948)
Net cash flows from operating activities	**1,158**	**5,287**	**27,463**
Payment for purchase of businesses, net of cash acquired	(28,196)	(4,224)	-
Payments for prior period purchase of businesses	-	-	(15,331)
Payments for investments	(1)	-	-
Payments for property, plant and equipment	(5,828)	(2,315)	(3,327)
Payments for intangibles	(3,893)	(4,951)	(1,959)
Payments for security deposits	-	(33)	(134)
Proceeds from disposal of business	1,352	-	-
Proceeds from disposal of investments	-	22	-
Proceeds from disposal of property, plant and equipment	1,012	-	1,948
Proceeds from release of security deposits	80	98	-
Loan repayment	-	-	-
Net cash flows used in investing activities	**(35,474)**	**(11,403)**	**(18,803)**
Proceeds from issue of shares	45,196	-	-
Share issue transaction costs	(2,907)	-	-
Proceeds from borrowings (net)	-	6,076	4,140
Repayment of borrowings (net)	(4,488)	(5,925)	(801)
Repayment of lease liabilities	(950)	(3,754)	(3,307)
Dividends paid	(8,703)	-	-
Net cash used in financing activities	**28,148**	**(3,603)**	**32**
Net increase/(decrease) in cash held	**(6,168)**	**(9,719)**	**8,692**
Cash at the beginning of the financial year	40,392	34,224	24,505
Cash at the end of the financial year	**34,224**	**24,505**	**33,197**

Source: Paragon

In relation to the historical cash flows of Paragon set out above, we note the following:

- Payments to suppliers and employees decreased in FY21 as a result of increased stock in transit and the timing of payments around year-end. The decrease in payments is reflected in the higher trade payables balance.
- The $15 million paid in relation to prior acquisitions in FY21 represents the final instalments on earn out provisions for historical transactions.
- The increase in cash held in FY21 was primarily due to increased operating cash flows.

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5.9 Capital structure and shareholders

As at 17 November 2021, Paragon had a total of 351,400,699 ordinary shares on issue. The following table sets out details of Paragon's substantial shareholders as at that date.

Table 16: Paragon's substantial shareholders

Shareholder name	Number of shares	% interest
Pioneer Hong Kong Group	52,435,121	14.9%
First Samuel Limited	25,525,748	7.3%
Other Shareholders	273,439,830	77.8%
Total	**351,400,699**	**100.0%**

Source: Paragon

Additionally, Paragon has a total of 11,414,507 performance rights on issue which were issued under the employee incentive plan. Each performance right can be converted into one Paragon share, subject to certain vesting conditions. The vesting conditions are tied to continuous employment and financial key performance indicators (e.g. earnings per shares growth and target 14-day volume weighted average prices ("**VWAPs**") to be achieved in future years).

5.10 Share trading

The following chart shows the share market trading of Paragon shares for the past three years:

Figure 15: Paragon's share performance

Source: CapIQ

In relation to the trading of Paragon shares over the last three years we note the following:

- Shares are thinly traded with an average daily value traded of approximately $130,000 (excluding outliers) from October 2018 to the announcement of the Proposed Transaction.
- Between July 2018 and January 2019, the share price was trending downwards as Paragon experienced issues in consolidating the numerous acquisitions made in the last four years amid increasing operating costs and difficulty managing working capital.
- Between March 2019 and January 2020, the share price generally traded between $0.40 and $0.50 per share.

- In February 2020, a sharp share price decline coincided with the release of Paragon's half year market update which disclosed an EBITDA margin of 10%, underperforming the target of 13% to 14% due to high operating costs. A cost reduction program only achieved $2 million of a targeted $8 million in annualised savings. Furthermore, revenues of Paragon's subsidiary, Western Biomedical, declined by 44% in the first half of FY20 due to loss of key clients and contracts.
- Paragon's share price has generally trended upwards since March 2020 as a result of improved market sentiment after the initial impacts of COVID-19 and positive results from the restructure program and debt renegotiations.
- The closing price remained stable at $0.31 per share between 5 November 2021 and 9 November 2021 despite the announcement of the Proposed Transaction on 8 November 2021.

5.11 Outlook

In 2019, Paragon embarked on a restructuring program which resulted in the creation of the Paragon four-pillar structure which has resulted in cost savings and increased revenues. In FY22, Paragon expects to further expand its product range, leverage synergies within their pillar structure and improve inventory management in an effort to achieve a 15% EBITDA margin in the future. Paragon is also looking to build upon its China growth strategy through the diagnostics business, Immulab, and joint venture with Jiangsu Zojiwat Bio-Pharmaceuticals Co. Ltd, a Chinese healthcare company. Throughout the COVID-19 pandemic, Paragon has maintained capabilities and is ready to capitalise on future opportunities within aged care in a post-COVID world. Paragon has a strong growth pipeline, with 15 of the largest opportunities having the potential to generate over $100 million in revenue. Overall, the outlook appears positive with increased government funding for healthcare and an expected increase in elective surgeries as patients seek to schedule procedures that were postponed during the pandemic.

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6 PROPOSED MERGED ENTITY

6.1 Introduction

If the Proposed Transaction is approved, Quantum will become the fifth operational pillar in the Paragon business structure and would represent approximately 21% of revenue of the Proposed Merged Entity based on FY21 results. The Proposed Merged Entity would have a larger geographical footprint which would provide opportunities to leverage Quantum's Asian business experience to distribute Paragon's larger product base.

6.2 Strategic Rationale

The strategic rationale supporting the Proposed Transaction is underpinned by:

- Leveraging Quantum's Asian footprint to cross-sell the combined product portfolio in high growth markets.
- Ability to attract new distribution agreements through the larger distribution footprint and enhanced corporate governance capabilities.
- Stronger balance sheet as a merged entity with an expanded earnings base which should provide for easier access to capital at lower costs which can be utilised to fund organic growth and acquisitions.
- The potential for revenue and cost synergies due to the strategic overlap of the businesses. Whilst potential synergies are yet to be quantified, at a minimum, shareholders in the Proposed Merged Entity are expected to benefit from cost savings associated with removing duplicated listed company and some back office costs.

6.3 Proposed Merged Entity Board Composition

The existing four Paragon board members will remain in place and Quantum will have the right to appoint two members of the expanded board of the Proposed Merged Entity. Quantum is yet to announce the names of the proposed new board members.

6.4 Proposed Merged Entity Capital Structure

If the Proposed Transaction is approved, there would be 625,579,614 ordinary shares on issue. The following table summarises the major shareholdings in the Proposed Merged Entity after the Proposed Transaction:

Table 17: Proposed Merged Entity's substantial shareholders

Shareholder name	Number of shares	%interest
Mr John Walstab	125,075,111	20.0%
Other Board & Management	57,195,484	9.1%
China Pioneer	52,435,121	8.4%
Drew Towsend	30,408,626	4.9%
First Samuel Limited	25,525,748	4.1%
Other Shareholders	335,909,065	53.6%
Total	**626,549,156**	**100.0%**

Source: Quantum

6.5 Proforma Financial Performance

The historical, proforma statement of financial performance for the combined Paragon and Quantum for the financial year ending 30 June 2021, as prepared by management, is as follows:

Table 18: Proforma statement of financial performance of the Proposed Merged Entity

$'000	Paragon	Quantum	Merged Group
Revenue	**235,840**	**55,113**	**290,953**
Cost of sales	(145,527)	(26,653)	(172,180)
Gross Profit	**90,313**	**28,460**	**118,773**
Other income	1,490	558	2,048
Expenses			
Employee Benefit Expense	(47,226)	(11,421)	(58,647)
Occupancy Expense	(1,398)	(147)	(1,545)
Marketing Expenses	(911)	(485)	(1,396)
Distribution Expense	(6,331)	(673)	(7,004)
Other Operating Expenses	(10,937)	(5,915)	(16,852)
Fair Value Gain/(loss) on Financial Assets	1,525	99	1,624
Currency Translation Gain(Loss)	-	340	340
EBITDA	**26,525**	**10,816**	**37,341**
Depreciation and amortisation	(6,200)	(1,541)	(7,741)
EBIT	**20,325**	**9,275**	**29,600**
Finance income	18	-	18
Finance costs	(8,012)	(701)	(8,713)
Profit before tax	**12,331**	**8,574**	**20,905**
Tax (expense) / benefit	(4,052)	(864)	(4,916)
Profit after tax	**8,279**	**7,710**	**15,989**

Source: Quantum

Note: the pro-forma statement of financial performance does not include any adjustments for potential synergies

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6.6 Proforma Financial Position

The proforma, historical statement of financial position for the combined Paragon and Quantum as at 30 June 2021, as prepared by management, is set out below:

Table 19: Proforma statement of financial position of the Proposed Merged Entity

$'000	Paragon	Quantum	Proforma Adj.	Merged Group
Current assets				
Cash and cash equivalents	33,197	11,945	-	45,142
Trade and other receivables	26,201	14,842	-	41,043
Inventories	51,578	8,147	-	59,725
Financial Assets	416	1,176	-	1,592
Income tax refund due	407	-	-	407
Other	1,413	4,499	-	5,912
Total current assets	**113,212**	**40,609**	**-**	**153,821**
Non-current assets				
Property, plant and equipment	7,464	1,137	-	8,601
Right-of-use assets	9,032	668	-	9,700
Investment property	-	2,338	-	2,338
Deferred tax assets	10,838	3,078	-	13,916
Goodwill and intangible assets	151,374	22,591	37,047	211,012
Financial assets	-	2,283	-	2,283
Other	-	1,701	-	1,701
Total non-current assets	**178,708**	**33,796**	**37,047**	**249,551**
Total assets	**291,920**	**74,405**	**37,047**	**403,372**
Current liabilities				
Trade and other payables	(36,100)	(11,102)	-	(47,202)
Contract liabilities	-	(3,918)	-	(3,918)
Borrowings	(21,794)	(7,277)	-	(29,071)
Lease liabilities	(3,648)	(499)	-	(4,147)
Income tax payable	-	(839)	-	(839)
Short-term Provisions	-	(2,597)	-	(2,597)
Derivative financial instruments	(3,047)	-	-	(3,047)
Employee benefits	(4,901)	-	-	(4,901)
Other	(12,720)	-	-	(12,720)
Total current liabilities	**(82,210)**	**(26,232)**	**-**	**(108,442)**
Non-current liabilities				
Contract liabilities	-	(121)	-	(121)
Payables	-	(484)	-	(484)
Borrowings	(80,471)	(74)	-	(80,545)
Lease liabilities	(7,098)	(106)	-	(7,204)
Employee benefits	(623)	(113)	-	(736)
Total non-current liabilities	**(88,192)**	**(898)**	**-**	**(89,090)**
Total liabilities	**(170,402)**	**(27,130)**	**-**	**(197,532)**
Net assets	**121,518**	**47,275**	**37,047**	**205,840**

Source: Quantum

The above proforma adjustment to intangible assets of $37 million represents the residual balance after deducting Quantum's net assets from the agreed share consideration being 274,178,915 of Paragon's shares, or 0.243 Paragon shares per Quantum share as per the scheme implementation deed, issued at 28.8 cents.

7 VALUATION METHODOLOGY

To estimate the fair market value of Quantum and the consideration payable by Paragon we have considered common market practice and the valuation methodologies recommended in RG 111. There are a number of methods that can be used to value a business including:

- The discounted cash flow method
- The capitalisation of future maintainable earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

Each of these methods is appropriate in certain circumstances and often more than one approach is applied. The choice of methods depends on several factors such as the nature of the business being valued, the return on the assets employed in the business, the valuation methodologies usually applied to value such businesses and availability of the required information. A detailed description of these methods and when they are appropriate is provided in Appendix 2.

7.1 Selected Methodology – Quantum

In selecting an appropriate valuation methodology for Quantum, we have considered the following:

Method	Considerations	Approach
Capitalisation of earnings	♦ There are a number of comparable listed companies for which there is sufficient data available to calculate comparable earnings multiples. There have also been a number of recent M&A transactions involving comparable companies. ♦ We have been provided with a detailed FY22 budget and have had discussions with management regarding year-to-date performance. ♦ Despite COVID-19, earnings in recent years have been relatively stable.	Selected
Discounted cash flow	♦ Quantum do not prepare medium/long term cash flow projections. In the absence of management forecasts, it is difficult to estimate longer term future earnings on a reasonable basis. ♦ Longer term growth expectations that could be captured from a discounted cash flow model are also captured in a capitalisation of earnings approach to the extent suitable comparable companies are used which have similar growth prospects. We consider near term forecasts to be representative of the earnings capacity for the business. For this reason, a discounted cash flow approach would not provide a better measure of the potential growth in this particular instance due to the existence of listed companies with comparable businesses and growth to Quantum.	Not utilised

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Method	Considerations	Approach
Share trading	♦ Share market trading in Quantum's shares has been relatively illiquid, with periods where no or very low volumes of shares have been traded for several days. Therefore, an analysis of share market trading is not as reliable as the capitalisation of earnings method as a primary valuation methodology in assessing the intrinsic value of a Quantum share.	Cross-check
Asset approaches	♦ Quantum is neither an asset-based business nor an investment holding company. Asset approaches are generally not appropriate for operating businesses as they ignore the value of most internally generated intangible assets. ♦ There is no indication that Quantum is unable to continue as a going concern. Therefore, an asset approach is not appropriate.	Not utilised

7.2 Selected Methodology – Consideration

In selecting an appropriate methodology for the valuation of the consideration, we have considered the following:

Method	Considerations	Approach
Share trading	♦ Trading in Paragon shares is relatively liquid indicating that the share price largely reflects expectations of future performance. ♦ Paragon generally provides earnings guidance throughout the year. Although, guidance is yet to be provided for FY22. ♦ In the near term, consideration shares could likely be sold at, or close to, the prevailing market price. If a Shareholder chooses to continue as a shareholder of Paragon longer term, that is a separate investment decision that is not the subject of this report.	Selected
Capitalisation of earnings	♦ In the short term we do not anticipate that the Proposed Transaction will have a material impact on the price of Paragon shares, as evidenced by share trading since the announcement of the Proposed Transaction. ♦ There are a number of comparable listed companies for which there is sufficient information available to determine market multiples.	Cross-check
Discounted cash flow	♦ Cash flow projections for the Proposed Merged Entity do not exist. ♦ As with the capitalisation of earnings approach, we consider the analysis of share trading to be more relevant to a shareholder's decision than a discounted cash flow analysis.	Not utilised
Asset approaches	♦ Paragon is neither an asset-based business nor an investment holding company. Asset approaches are generally not appropriate for operating businesses as they ignore the value of most internally generated intangible assets.	Not utilised

8 VALUATION OF QUANTUM

We have assessed the fair market value of Quantum using the capitalisation of future maintainable earnings method which requires consideration of the following factors:

- An appropriate level of maintainable earnings
- An appropriate earnings multiple
- The value of any non-operating assets and liabilities
- Relevant cross-checks

These considerations are discussed in more detail below.

8.1 Maintainable earnings

The following measures of earnings are often used for business valuations:

- **Revenue**: mostly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.
- **EBITDA**: most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.
- **EBITA**: in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.
- **EBIT**: while commonly used in practice, multiples of EBIT are usually more reliable than EBITA multiples as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).
- **NPAT**: relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value the whole business for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing a minority interest in a company as the investor has no control over the level of debt.

We have selected EBITDA as appropriate measures for Quantum because:

- Earnings multiples based on EBITDA, EBITA and EBIT are not affected by different financing structures which impact multiples of net profit after tax.
- Third party forecasts of EBITA for comparable companies are not readily available, making EBITA multiples difficult to apply.
- Publicly available data for comparable transactions is primarily based on EBITDA multiples.

When considering an appropriate level of future maintainable earnings, it is important to base the analysis on a maintainable level of earnings which includes adjustment for any non-recurring items as these items will not impact the ongoing earnings of the business.

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Normalised EBITDA

The table below sets out normalised EBITDA for FY19, FY20 and FY21.

Table 20: Quantum normalised EBITDA

	FY19	FY20	FY21
Reported EBITDA	**4,017**	**9,333**	**10,744**
Normalisation adjustments			
- Full year impact of Carestream acquisition	-	532	-
- Gain on bargain purchase	-	(130)	-
- Earnings from investment properties	-	(56)	(56)
- Job-keeper payments	-	(117)	(392)
- Legacy energy business	1,502	(247)	(62)
- Restructuring costs	1,185	-	-
Total normailsations	**2,687**	**(19)**	**(510)**
Normalised EBITDA	**6,704**	**9,314**	**10,234**

Source: Quantum and Leadenhall analysis

In relation to the normalised EBITDA presented above, we note:

- The full year impact of the Carestream acquisition represents an additional four months of trading for the Australia and New Zealand business and six months for the Philippines business based on pro-rata actual earnings from acquisition date to 30 June 2020.
- A gain on bargain purchase was recognised on the acquisition of the Carestream Philippines business.
- Quantum owns an investment property in Korea from which Quantum derives approximately A$56,000 a year in income. This income has been deducted for the purposes of determining maintainable earnings as the value of the property is included in our valuation as a surplus asset.
- Quantum received job-keeper payments from the Australian government in FY20 and FY21 as a result of COVID-19 related downturn in revenue.
- We understand the energy business is now operating at approximately break-even levels and is expected to continue to do so, accordingly we have removed its historical earnings.
- In addition to the loss made on the energy business in FY19, a further $1.19 million in one-off restructuring costs were incurred.

Maintainable EBITDA

In selecting an appropriate level of maintainable EBITDA, we have considered the following key factors:

- Normalised EBITDA in FY20 and FY21 was adversely impacted by COVID-19. In particular, the Aesthetics business in Thailand was adversely impacted since clinics that buy new products and consumables were closed due to public health orders. The businesses in Australia, New Zealand and Korea were adversely impacted as hospitals and other healthcare providers delayed or revised the need for new equipment purchases to focus resources on the COVID-19 response.
- We have been provided with a FY22 budget for each of the segments of the Quantum business. Quantum's budgeting process is based on a detailed review of the sales pipeline for each segment. Given the nature of the products distributed by Quantum, there is usually significant lead time for new purchases. Quantum expect trading conditions to be more favourable in FY22 as COVID-19 restrictions are lifted in key markets. For confidentiality reasons we are unable to present the forecast FY22 EBITDA in our report.
- Quantum has a history of meeting forecast expectations and there is no evidence to suggest that the FY22 budget for Quantum is overly aggressive or conservative in nature. Historically, variances to budget in the health care business have been due to timing differences rather that significant forecasting inaccuracy.

- Year to date earnings for the three months to 30 September 2021 were slightly ahead of forecast. However, management attribute the majority of the positive variance to timing differences rather than sustainable outperformance.
- As noted in Section 4.4, Quantum has established a partnership to distribute the LegioGuard solution in Australia. We understand negotiations are in progress which could lead to the first substantial sale. As revenue and profit from any sale would not be recorded until at least FY23, we have not included any benefit from this potential sale in our estimate of maintainable earnings. However, its potential has been reflected in our consideration of an appropriate earnings multiple.

After considering historical and forecast earnings, we have selected maintainable earnings for Quantum in the range of $11.0 million to $11.5 million. In selecting this range, we have placed greater weight on FY22 forecast EBITDA than normalised historical EBITDA, given the impacts of COVID-19 over the past two years.

8.2 Earnings multiple

Overview

The multiples selected to apply to maintainable earnings implicitly reflect expectations about future growth, risk and the time value of money all compensated for in a single number. Multiples can be derived from three main sources:

- Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX.
- Transactions involving companies engaged in the same or similar lines of business.
- It is also possible to build a multiple from first principles based on an appropriate discount rate and growth expectations. This approach is generally used when the first two are not possible. We have not considered this approach in valuing Quantum.

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Trading multiples

In respect of public company trading multiples, we have considered publicly listed companies that operate businesses with similar industry exposure to Quantum. We have taken into account two sets of comparable companies. The first set includes publicly listed healthcare distributors and healthcare supplies manufacturers and the second includes international publicly listed distributors of healthcare equipment and supplies. We also considered publicly listed healthcare equipment designers and manufacturers in Australia. However, the three largest companies in this group, ResMed, Fisher & Paykel Healthcare and Cochlear are much larger than Quantum (each with an enterprise value over $14 billion) and smaller companies in this industry are generally research stage with little or no profit. As such, we have not included this group in our presented analysis of comparable trading multiples.

The following table sets out the historical and forecast trading EBITDA multiples for the selected comparable companies:

Table 21: Trading multiples of comparable companies

Company	EV($'m)	Revenue growth		EBITDA growth		EBITDA margin		EBITDA multiple	
		FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
ANZ healthcare distribution and supplies									
EBOS Group Limited	6,206	5.0%	10.3%	8%	28%	3.5%	4.0%	20.2x	15.8x
Ansell Limited	4,201	25.6%	-1.3%	47%	3%	18.1%	18.8%	11.5x	11.2x
Australian Pharmaceutical Industries Limited	1,021	-0.4%	3.0%	65%	38%	2.9%	3.9%	8.8x	6.4x
Sigma Healthcare Limited[3]	732	4.8%	4.9%	343%	79%	1.4%	2.4%	9.0x	8.4x
Paragon Care Limited	183	1.8%	n/a	622%	n/a	7.2%	n/a	10.8x	n/a
SDI Limited	113	21.2%	n/a	71%	n/a	19.3%	n/a	7.2x	n/a
Quantum Health Group Limited	76	-5.9%	n/a	12%	n/a	17.3%	n/a	7.9x	n/a
Average		***9.7%***	***4.2%***	***192.8%***	***36.9%***	***8.7%***	***7.3%***	***10.8x***	***10.4x***
International healthcare distribution and supplies									
STERIS plc	35,943	2.5%	48.2%	11%	58%	26.6%	28.4%	32.0x	20.3x
Cardinal Health, Inc.	23,582	6.2%	9.0%	6%	1%	1.7%	1.6%	*6.3x*	*6.2x*
Henry Schein, Inc.	17,794	1.3%	20.5%	1%	45%	7.2%	8.7%	17.9x	12.4x
AdaptHealth Corp.	7,325	99.5%	131.1%	99%	223%	16.3%	22.7%	*31.4x*	9.7x
Patterson Companies, Inc.	5,204	7.7%	7.5%	8%	-1%	5.0%	4.6%	13.1x	13.2x
Agiliti, Inc.	5,707	26.1%	31.5%	26%	47%	26.2%	29.3%	20.7x	14.1x
Owens & Minor, Inc.	5,758	-7.9%	15.0%	-8%	51%	3.8%	5.0%	13.1x	8.7x
Covetrus, Inc.	4,775	9.1%	5.6%	9%	120%	2.6%	5.4%	*31.4x*	14.3x
AS ONE Corporation	3,165	15.9%	8.1%	16%	5%	14.2%	13.8%	22.9x	21.8x
Japan Medical Dynamic Marketing, INC.	675	-7.4%	13.5%	-7%	26%	21.3%	23.6%	15.9x	12.6x
InfuSystem Holdings Inc.	510	19.1%	n/a	19%	31%	21.7%	25.9%	17.9x	13.7x
CHC Healthcare Group	438	-13.4%	n/a	-13%	n/a	36.9%	n/a	9.5x	n/a
Medius Holdings Co., Ltd.	327	17.3%	n/a	17%	n/a	1.4%	n/a	7.7x	n/a
OLBA HEALTHCARE HOLDINGS, Inc.	129	4.7%	n/a	5%	n/a	1.7%	n/a	5.6x	n/a
WIN-Partners Co., Ltd.	117	-3.7%	n/a	-4%	n/a	3.9%	n/a	4.0x	n/a
Great Elm Group, Inc.	67	3.2%	n/a	3%	n/a	1.6%	n/a	*52.0x*	n/a
Yamashita Health Care Holdings,Inc.	55	8.5%	n/a	8%	n/a	1.7%	n/a	4.0x	n/a
DVx Inc.	44	-8.2%	n/a	-8%	n/a	3.0%	n/a	3.0x	n/a
Average		***10.0%***	***29.0%***	***10.5%***	***55.1%***	***10.9%***	***15.4%***	***17.1x***	***13.4x***
Average (excluding outliers)		***n/a***	***n/a***	***n/a***	***n/a***	***n/a***	***n/a***	***13.4x***	***14.6x***
Median		***5.5%***	***14.3%***	***7.0%***	***45.0%***	***4.4%***	***13.8%***	***14.5x***	***13.2x***
Median (excluding outliers)		***n/a***	***n/a***	***n/a***	***n/a***	***n/a***	***n/a***	***13.1x***	***13.4x***

Source: S&P CapIQ as at 16 November 2021

Notes:

1. *The figures presented above are post AASB116 implementation*
2. *Enterprise value is calculated based on the market capitalisation as at 16 November plus net debt as calculated by CapIQ on the most recent balance date for which there is publicly available data. For the international comparable companies, the exchange rate as at 16 November 2021 was used to translate the enterprise value into Australian dollars.*
3. *FY22 EBITDA is based on the consensus broker estimate sourced from S&P CapIQ*
4. *Sigma's FY21 EBITDA multiple has been adjusted to reflect underlying EBITDA of $80.1 million as disclosed in Sigma's FY21 annual report*

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It should be noted that these multiples are based on trading of minority shareholders. In contrast, we are considering the value of a Quantum share on a control basis. Therefore, consideration must be given to observed control premiums in the Australian market and the impact on the minority trading multiples, of the comparable companies, if applied. Further information on control premiums is provided in Appendix 4.

In addition to considering the differences between minority and control multiples, we have also considered the following factors in determining an appropriate earnings multiple to apply to the valuation of Quantum:

- Quantum is smaller, generally considerably, than the majority of the comparable companies. All other things being equal, smaller companies trade on lower multiples.
- Quantum's FY21 normalised EBITDA margin was 18.4% and the FY22 forecast margin is similar. This is at the higher end of the ANZ comparable companies and similar to the FY22 forecast average of the international companies. The smaller international distribution companies have EBITDA margins at the lower end of the observed range for this group, and much lower than Quantum. All other things being equal, companies operating on lower margins trade at lower multiples.
- COVID-19 has negatively impacted most of the comparable companies. Some saw revenue growth in FY21 whilst others are not expected to see growth until FY22. This is consistent with the growth forecasts for Quantum as COVID-19 related growth headwinds are easing in FY22. Furthermore, Quantum has exposure to relatively high growth Asian markets and potential growth opportunities from the distribution of LegioGuard. The COVID-19 impact on revenue growth makes it difficult to distinguish between organic growth expectations and COVID-19 recovery growth of the comparable companies. All other things being equal, higher growth companies tend to trade on higher multiples.
- The most comparable Australian company in terms of size and margins is SDI Limited, a manufacturer of specialist dental equipment and materials, marketed in over 100 countries globally. SDI's EBITDA multiple based on FY21 earnings is 7.2x. FY22 EBITDA growth of between 5% and 10% would result in a forecast EBITDA multiple of 6.5x and 6.9x.
- With the exception of Great Elm Group Inc., the smaller international comparable companies trade on historical multiples of 3.3x to 5.6x. However, although these companies are similar in size to Quantum, they operate on much lower margins and as such it would be expected that Quantum would trade on a higher multiple.

Transaction multiples

In addition to our analysis of trading multiples, we have also reviewed relevant transaction multiples. The table below shows the historical and forecast (where available) EBITDA multiples from relevant transactions with publicly available data.

Target	Acquirer	Target location	Date	% acquired	Implied EV ($'m)	Historical EBITDA $	margin	multiple
Vision Ophthalmology	AddLife AB	Germany	Apr-21	100%	294.2	13.0	19%	12.7x
Healthcare 21	AddLife AB	Ireland	Apr-21	100%	401.8	31.1	12%	12.9x
Ellex Medical Lasers	Lumbird SA	Australia	Nov-19	100%	100.0	9.5	14%	10.6x
REM Systems Ltd	Paragon Care	Australia	Jun-18	100%	59.0	7.2	11%	8.2x
Surgical Specialties	Paragon Care	Australia	Feb-18	100%	32.4	4.9	16%	6.6x
LifeHealthcare Group	Pacific Equity Partners	Australia	Feb-18	100%	199.8	20.8	16%	9.6x
Gynemed	Hamilton Thorne Ltd.	Germany	Apr-17	100%	20.6	3.8	26%	5.4x
Western Biomedical	Paragon Care	Australia	Aug-15	100%	28.9	4.3	13%	6.7x
Designs for Vision	Paragon Care	Australia	Aug-15	100%	25.5	4.0	13%	6.4x
Meditron	Paragon Care	Australia	Aug-15	100%	6.0	1.5	17%	4.0x
Average					***116.8***	***10.0***	***16%***	***8.3x***

Source: S&P CapIQ, company announcements and Leadenhall analysis

Notes:

1. *All transaction multiples except the Vision Ophthalmology and Healthcare 21 multiples are calculated pre-AASB116. Pre-implementation of AASB116, EBITDA would have been lower as lease costs were included as an operating expense. As such, pre-AASB116 multiples would be higher than post-AASB116 multiples, all other things being equal.*

The observed multiples from comparable transactions are control multiples. Therefore, no adjustment for a control premium is required. These multiples also include any value paid for synergies, including any special value.

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We have considered the following factors in relation to the above transaction multiples in determining an appropriate earnings multiple to apply to the valuation of Quantum:

- The most comparable target company in terms of types of equipment distributed is Ellex Medical Lasers (laser and ultrasound division). However, in addition to distributing laser and ultrasound products for the ophthalmic market, Ellex also manufactures the equipment. Ellex Medical Lasers' acquisition multiple was 10.6x historical EBITDA.
- The other targets primarily distribute lower technology equipment than Quantum along with healthcare consumables. Furthermore, most do not have significant equipment servicing businesses. As a result of these two factors, the comparable targets operate on lower EBITDA margins than Quantum (18.4% in FY21 based on normalised EBITDA), with the exception of Vision Ophthalmology and Gynemed. All other things being equal, companies operating on lower margins trade at lower multiples.
- The most comparable company in terms of size is REM Systems. Quantum is slightly larger than REM Systems and has a higher EBITDA margin. REM System's acquisition multiple was 8.2x historical EBITDA. The next largest transaction was LifeHealthcare Group which is more than double the size of Quantum and operates on a slightly lower EBITDA margin. LifeHealthcare Group's acquisition multiple was 9.6x historical EBITDA.
- The average EBITDA multiple of the comparable transactions is 8.3x.
- The transaction multiples presented are all calculated based on historical actual EBITDA. We are using forecast earnings in our valuation of Quantum and as such a multiple based on forecast earnings should be applied. Assuming growth in EBITDA, forecast multiples will be less than historical multiples.

We have selected a capitalisation multiple of 8.0x to 8.5x to value Quantum on a control basis. Our key considerations in selecting the appropriate multiple are summarised below:

- We have given less weight to the trading multiples of the comparable companies as the size and nature of their operations is less comparable than the target companies of the comparable transactions.
- We have given most weight to the historical transaction multiples of REM Systems, Ellex Medical Lasers and LifeHealthcare Group as their size and nature of operations is most comparable to Quantum. An appropriate multiple for Quantum would be lower than the observed multiples for Ellex Medical Lasers and LifeHealthcare Group due to their larger size, historical multiples being higher than forecast multiples (where growth is expected) and the comparable company multiples being calculated on a pre-AASB16 basis (which generally leads to a higher multiple than a post-AASB16 calculation basis).

8.3 Non-operating assets and liabilities

In order to assess the value of Quantum shares, it is necessary to identify any other assets and liabilities not included in the calculated enterprise value. These can be:

- **Surplus assets**: assets held by the company that are not utilised in its business operation. This could be investments, unused plant and equipment held for resale, or any other assets not required to run the operating business. It is necessary to ensure that any income from surplus assets (i.e. rent / dividends) is excluded from the business value.
- **Non-operating liabilities**: liabilities of a company not directly related to its current business operations, although they may relate to previous business activities, for example claims against the entity.
- **Net debt**: comprising of debt used to fund a business, less surplus cash held by the company.

Each of these factors are considered below.

Surplus assets

We have identified one surplus asset being a property owned by Quantum in Korea. The book value of the property as at 30 June 2021 was $2.3 million. Whilst the property is held at cost on the balance sheet, management do not expect that the market value of the property is materially different from the book value and as such we have adopted the book value of the purposes of our analysis.

Non-operating liabilities

We have not identified any non-operating liabilities.

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Net debt

The net debt position for Quantum as at 30 September 2021 is set out in the table below:

Table 22: Net debt summary

Net debt ($'000)	
Cash	13,331
Term deposits	1,687
Borrowings	(7,076)
Net cash / (debt)	**7,942**

Source: Quantum

8.4 Valuation Summary

Based on the analysis set out above, the value of a Quantum share (on a control basis) is as set out in the table below:

Table 23: Quantum valuation summary

$'000	Low	High
Maintainable EBITDA	11,000	11,500
Multiple	8.0x	8.5x
Enterprise value	**88,000**	**97,750**
Net cash	7,942	7,942
Surplus assets	2,338	2,338
Equity value	**98,280**	**108,030**
Number of shares	1,128,308	1,128,308
$/share	**0.087**	**0.096**

Source: Leadenhall analysis

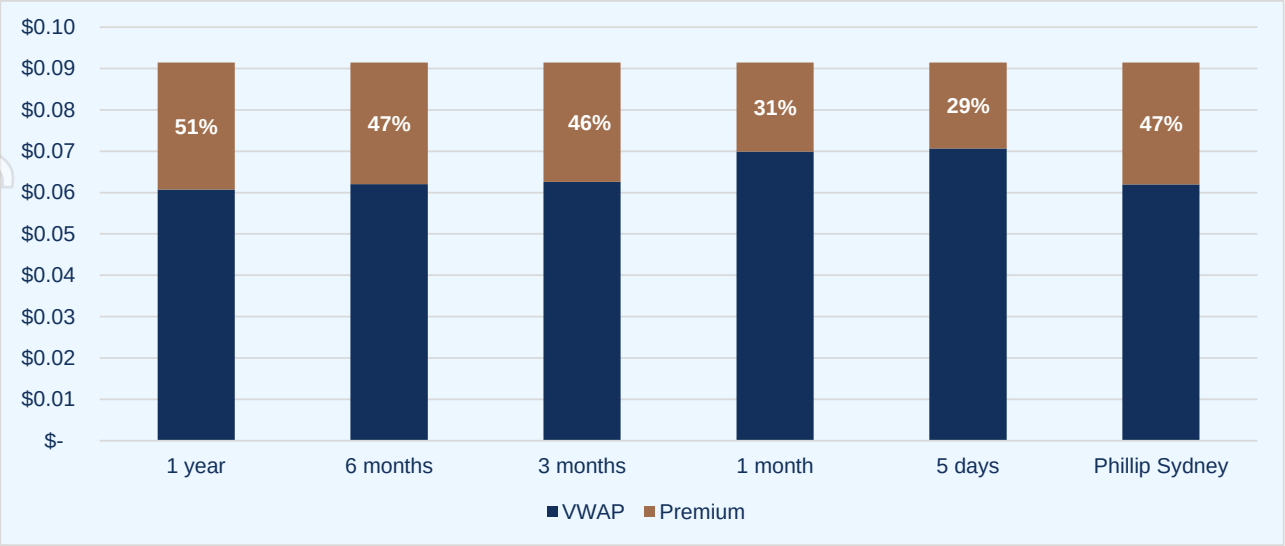
8.5 Share trading analysis cross-check

Market trading in Quantum's shares provides an indication of the market's assessment of the value of Quantum on a minority basis. We have presented an analysis of recent trading in Quantum shares in Section 4.10 above. When assessing market trading, it is necessary to consider whether the market is informed and liquid. In this regard, we note:

- Quantum is a listed company with continuous disclosure obligations under the ASX Listing Rules, thus the market is reasonably informed about its activities.
- Quantum shares are relatively closely held with the top three shareholders holding approximately 60% of the shares in Quantum. Furthermore, average daily trading value for the twelve months to 5 November 2021 was under $20,000 (excluding ten days where over 2 million shares were traded). This level is below the level at which most institutional investors would wish to trade. Both the limited free float (total shares not held by significant long term investors) and low volumes traded may be seen as a deterrent for some investors.

As a result of these factors, we consider the market trading to be well informed but relatively illiquid. We have therefore undertaken only a high-level analysis of share market trading by assessing the level of control premium implied by our mid-point valuation range compared to the VWAP of a Quantum share over various periods leading up to the announcement of the Proposed Transaction on 8 November 2021, as set out in the figure below.

Figure 16: Implied control premium to market prices



Source: CapIQ and Leadenhall analysis

Note: On 24 September 2021, Mr Phillip Sydney sold 45 million Quantum shares at a price of $0.062 per share.

The generally observed range for control premiums is between 20% and 40%. Further information on observed control premiums and takeover premiums is included in Appendix 4.

Quantum shares are tightly held and thinly traded. As such, trading prices may be influenced by limited liquidity. Given that the control premium is within or slightly above the generally observed range, we consider this provides broad support for the assessed value of a Quantum share based on the primary capitalisation of earnings methodology.

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9 VALUATION OF CONSIDERATION

9.1 Introduction

Quantum shareholders will receive 0.243 Paragon shares for each Quantum share held. We have determined the fair market value of the scrip consideration using an analysis of share market trading in Paragon shares. We have cross checked the implied earnings multiples of the Proposed Merged Entity on this basis against the current trading multiples of comparable companies. This assessment has been made on a minority interest basis (i.e. excluding a control premium) as quantum's existing shareholders would be minority shareholders in the Proposed Merged Entity if the Proposed Transaction proceeds.

9.2 Analysis of share market trading

We consider that market trading in Paragon shares is well informed and moderately liquid with a wide spread of shareholders as set out in Section 5.9 above. As such, we consider an analysis of recent share market trading to be a reasonable basis to determine the fair market value of a Paragon share.

The consideration is comprised of shares in the Proposed Merged Entity. As such we have primarily analysed trading in Paragon shares since the announcement of the Proposed Transaction on 8 November 2021. Between 9 November 2021 and 29 November 2021 Paragon shares traded between $0.28 and $0.31, with a VWAP of $0.295 and average daily volume of $128,555. Given the relatively low volumes of trading post transaction announcement, we have also had regard to trading in Paragon shares over the last three months. Over this time Paragon shares have traded in the range of $0.26 to $0.34 and have not traded under $0.29 since Paragon's annual report was released on 28 August 2021.

Based on recent share market trading, we have assessed the value of a Paragon share to be in the range of $0.30 to $0.34. At the low end of the range, we consider that the market is factoring in some risk of non-completion of the Proposed Transaction. The high end of our range is in line with the high-end of market trading in the last three months. Whilst the high-end share price data pre-dates the announcement of the Proposed Transaction, we consider that this price is achievable in the short term, particularly after considering easily achievable cost synergies that are typical in these types of transactions (elimination of duplicated listed company, accounting and board costs).

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9.3 Cross-check

Based on the selected value of a Paragon share of between $0.30 and $0.34, the enterprise value and forecast EBITDA multiples for the Proposed Merged Entity are set out in the table below.

Table 24: Implied EBITDA multiples of Proposed Merged Entity

$'000	Low	High
Share price	0.30	0.34
Shares on issue (existing)	351,401	351,401
Shares on issue (new)	274,179	274,179
Equity value (minority basis)	**187,674**	**212,697**
Cash (Paragon)	(19,185)	(19,185)
Cash (Quantum)	(15,018)	(15,018)
Borrowings (Paragon)	95,439	95,439
Borrowings (Quantum)	7,076	7,076
Enterprise value (minority basis)	**255,985**	**281,008**
FY21 normalised EBITDA Paragon	21,543	21,543
FY21 normalised EBITDA Quantum	10,234	10,234
FY21 Proposed Merged Entity EBITDA	**31,777**	**31,777**
Implied historical EBITDA multiple	**8.1x**	**8.8x**
Implied forecast EBITDA multiple	**7.1x**	**7.3x**

Source: Leadenhall analysis

Notes:

1. *Cash and borrowings are as per management accounts as at 30 September 2021*
2. *The majority of the Paragon performance rights on issue are out of the money. The inclusion of the small amount that are in the money would not make a material difference to our assessed value.*

In relation to the above analysis we note the following:

- The cash and borrowings position of each entity is as per management accounts as at 30 September 2021. We understand that there have been no movements in these balances that would materially impact our analysis.
- The implied historical EBITDA multiple is based on normalised FY21 EBITDA for Quantum as set out in Table 20 and normalised FY21 EBITDA for Paragon of $21.5 million, representing reported EBITDA of $25 million less an adjustment of $3.5 million in job keeper payments received.
- The implied forecast EBITDA multiple is based on the mid-point of the assessed maintainable EBITDA for Quantum, as set out in Section 8.1 above and estimated maintainable earnings for Paragon. In determining estimated maintainable earnings for Paragon we have considered the FY22 budget provided by Paragon (for confidentiality reasons we are unable to present the FY22 Paragon budget in our report). Estimated maintainable EBITDA for Paragon is based on management's forecast revenue and an EBITDA margin of between 10.5% (low scenario) and 11.4% (high scenario).
- Historical and forecast multiples for companies that operate in the same or similar sectors to the Proposed Merged Entity are set out in Table 21. The implied historical multiples for the Proposed Merged Entity are generally in line with comparable Australian companies after considering comparative size and EBITDA margins. They are also in line with, or slightly higher than, the international comparable companies with an enterprise value of less than $500 million.
- The implied historical EBITDA multiple for the Proposed Merged Entity is between the historical trading multiples of Paragon and Quantum.
- The implied forecast EBITDA multiples are at the lower end of the comparable Australian companies, however not unreasonably so. None of the smaller international comparable companies have forecast EBITDA multiples.

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- In the near term, consideration shares could likely be sold at, or close to, the prevailing market price. We consider that short term share price movements would likely be related to positive sentiment from the completion of the transaction and inclusion of easily realisable cost synergies. These factors have been taken into account at the high end of our selected range. If a shareholder chooses to continue as a shareholder of Paragon longer term, that is a separate investment decision that is not the subject of this report.

Overall, we consider that the cross-check provides support of the selected value of a Paragon Share.

9.4 Assessed value of consideration

Based on the analysis above, the assessed value of the consideration is set out in the table below.

Table 25: Assessed value of Consideration

	Low	High
Number of Paragon shares per Quantum share	0.243	0.243
Assessed value of a Paragon share ($)	0.30	0.34
Assessed value of consideration ($)	**0.073**	**0.083**

Source: Leadenhall analysis

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10 REPAYMENT OF RELATED PARTY LOANS

10.1 Introduction

John Walstab and Drew Townsend, directors of Quantum, have made loans to Quantum, which are recognised as liabilities in Quantum's financial statements. It is a condition precedent to the Proposed Transaction that these loans are fully repaid.

As requested by Quantum, we have assessed whether the repayment of the Related Party Loans would result in John Walstab and Drew Townsend receiving benefits that other stakeholders would not. In doing so we have formed an opinion as to whether:

- There is any reason for the value of the Related Party Loans, as recognised in Quantum's financial statements, to be discounted.
- The repayment of the Related Party Loans will result in a financial benefit to John Walstab and/or Drew Townsend at the detriment of other Quantum shareholders.

10.2 Summary of loan agreements

The table below summarises the key terms of the Related Party Loans.

Terms	Walstab Loan	Townsend Loan
Inception date	June 2015	June 2015
Expected amount outstanding at 31 Dec 21	Principal: nil Interest: $2,227,995	Principal: $962,326 Interest: $284,132
Interest rate	15% p.a. on principal, 10% p.a. on accrued interest	10% p.a. on principal and accrued interest
Term	Principal repayments determined by borrower; interest repayable on demand	Repayable on demand
Security	Unsecured	Unsecured

Source: Quantum loan documents

10.3 Value of related party loans

In considering whether there is any reason for the value of the Related Party Loans to be discounted, we have had primary regard to the following factors:

- Quantum is a going concern
- As to 30 September 2021, Quantum had sufficient cash to repay the loans in full without any material impact on solvency or short to medium term working capital requirements. Management has advised that there have been no material changes to the financial position as at 30 September 2021.

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- We consider the interest rates applicable to the Related Party Loans to be reasonable based on our experience with unsecured loans for similar sized businesses and the following current lending rates for unsecured business loans/overdrafts in Australia.

Lender	Loan type	Loan size[1]	Interest rate[2,3]
ANZ	Unsecured business overdraft	Up to $100,000	14.95%
CBA	Mortgage free business finance	Up to $3,000,000	6.18%[3]
Lumi	Unsecured business loan	Up to $300,000	From 9.0%
NAB	Unsecured business loan	Up to $250,000	10.95%
Prospa	Unsecured business loan	Up to $150,000	9.9% to 26.5%
Westpac	Unsecured business loan	Up to $75,000	9.95%

Source: Lender websites and loan comparison website mozo.om.au as at 15 December 2021

Notes:

1. *Unsecured loans from financial institutions are generally limited in size.*
2. *Excludes establishment and other fees*
3. *Interest rate reflects the variable base rate for loans with security other than residential security. Interest rate margins will apply. Interest rate for unsecured loans would be higher.*

Based on the above, there is nothing that has come to our attention to indicate that the value of the Related Party Loans, as recognised in Quantum's Financial Statements, should be discounted.

10.4 Assessment of financial benefit

In considering whether the repayment of the Related Party Loans will result in a net financial benefit to John Walstab and/or Drew Townsend to the detriment of other Quantum shareholders we have had primary regard to the following key factors:

- John Walstab and Drew Townsend will not receive any financial benefit in excess of the contractual benefits provided for in the respective loan agreements. Based on the analysis in Section 10.3 above, we consider the proposed payments for the Related Party Loans are broadly consistent with the current fair market value of the loans.
- Repayment of the Related Party Loans will result in the cessation of interest payments to John Walstab and Drew Townsend. As such future financial benefits received by the lenders will be less if the Related Party Loans are repaid.
- The financial position of the Proposed Merged Entity would likely support a secured loan of a similar quantum at a lower interest rate (as at 30 June 2021 the weighted average interest rates for Paragon borrowings were 3.19% for variable rate borrowings and 5.25% for fixed rate borrowings). As such, repayment of the Related Party Loans prior to the Proposed Transaction would result in a reduction in interest payable by the Proposed Merged Entity.
- Repayment of the Related Party Loans may facilitate additional leverage at a lower cost in the future for the Proposed Merged Entity.
- The Related Party Loans are repayable on demand which could result in near term payment even in the absence of the Proposed Transaction.
- Repayment of the Related Party Loans will not affect our valuation of a Quantum share prior to the Proposed Transaction or our valuation of the Consideration (as the net debt and value per share in each case is the same whether the Related Party Loans exist or are repaid from Quantum's cash reserves).

In our opinion, the repayment of the Related Party loans will not result in a net financial benefit to John Walstab and/or Drew Townsend to the detriment of other Quantum shareholders.

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11 EVALUATION

11.1 Fairness

We have assessed whether the Proposed Transaction is fair by comparing our assessed fair market value of a Quantum share on a control basis with the consideration offered. This comparison is set out in the table below.

Table 26: Assessment of fairness

Cents	Low	High
Assessed value of a Quantum share	8.71	9.57
Assessed value of Proposed Consideration	7.29	8.26

Source: Leadenhall analysis

Since the consideration offered is less than the assessed range of values of a Quantum share, the Proposed Transaction is not fair to Shareholders.

11.2 Reasonableness

We have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, there are sufficient reasons for Shareholders to vote for the proposal. We have therefore considered the advantages and disadvantages of the Proposed Transaction below.

Advantages

Increase in standalone value

Our assessed value of the Consideration is above recent trading in Quantum shares and our assessment of a reasonable value of a Quantum share on a minority basis of 6.71 cents to 7.37 cents (assuming a control premium of 30%, which implies a discount for lack of marketability of 23%, being the midpoint of the generally accepted range). At the midpoint, the assessed value of the Consideration is 10.5% higher than our assessment of a reasonable value of a Quantum share on a minority basis. It also excludes any allowance for the significant synergies that may be achieved over the medium term from the Proposed Transaction. Thus, while the Consideration does not include a full control premium, in our opinion it provides significant upside compared to Quantum continuing to trade on a standalone basis.

Size and diversification

The Proposed Merged Entity will be larger in size and offer a significantly more diversified product portfolio than Quantum on a stand-alone basis. This increase in size and diversification may lead to a market rerating of the Proposed Merged Entity, which could lead to the Proposed Merged Entity trading at prices in excess of our assessed range over time.

Potential for synergies

In the short term, synergies associated with the elimination of duplicated listed company, accounting and board costs should be relatively easy to achieve. In the medium term, there is a significant, as yet unquantified, opportunity to leverage Quantum's relationships and networks in Asia to distribute Paragon's much larger product portfolio.

Broader shareholder register

Currently trading in Quantum shares is relatively illiquid. Liquidity in Quantum shares is likely negatively affected by large blocks of shares held by Mr John Walstab and Mr Drew Townsend, who combined own more than 56% of Quantum shares. If the Proposed Transaction is approved, the Proposed Merged Entity would have a much broader shareholder base which would likely result in greater liquidity for existing Quantum shareholders.

Improved access to capital

Historically, Quantum has struggled to raise capital (debt and equity), which has impacted opportunities to improve growth and margins. The larger size and broader shareholder base of the Proposed Merged Entity could improve access to debt and equity capital markets. Any capital raised could be used to accelerate growth, particularly in Asia.

Attract new suppliers

A larger and more diversified Proposed Merged Entity may prove more attractive to potential distribution partners than either Quantum or Paragon on a stand-alone basis.

Disadvantages

Integration risks

Historically Paragon has experienced some difficulties with the integration of acquired entities. This has likely had a negative impact on the historical share price of Paragon. To the extent that investors factor in integration challenges in respect of the Proposed Transaction, this may result in Paragon shares trading below our assessed range in the short term if the Prosed Transaction is approved.

Loss of control

Shareholders will collectively lose control of Quantum. However, the largest shareholdings in the Proposed Merged Entity will be smaller than the current large holdings in Quantum, thus making it harder for any individual shareholder to implement decisions in its own favour at the expense of other investors.

Limited control premium

The transaction pricing has been determined on a nil premium basis as if the transaction was a merger of equals. However, Paragon will obtain the benefits of control (Paragon shareholders will own more than half of the shares in the Proposed Merged Entity and Paragon nominated directors will have a majority of seats on the board of the Proposed Merged Entity). As the Proposed Transaction is assessed as unfair, that implies that it does not include a full control premium.

The management of both Quantum and Paragon are expecting significant synergies over time. To the extent Quantum shareholders retain their Paragon shares issued as Consideration, they would also benefit from these synergies being achieved.

Tax implications

The acceptance of the Proposed Transaction may have varying tax implications for individual shareholders, which could result in immediate tax leakage that would otherwise be deferred in other transaction structures or in the absence of the Proposed Transaction. Since this may impact the net cash consideration received this may be a disadvantage for those shareholders that incur a taxation liability as a result of the Proposed Transaction. Shareholders should seek their own independent advice as to any potential tax implications of the Proposed Transaction.

Conclusion

Whilst the value of the Consideration does not include a full control premium, it is slightly higher than recent trading prices in Quantum shares and our assessment of a reasonable value of a Quantum share on a minority basis. We also consider there to be potential upside to our assessed value of the Proposed Merged Entity for Shareholders holding Paragon shares in the medium term if the anticipated synergies from the Proposed Transaction are realised. To date no superior offer has been received by Quantum, and Paragon is the most likely buyer. On this basis, we consider the Proposed Transaction to be reasonable.

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11.3 Opinion

A transaction is considered to be in the best interests of shareholders if it is either fair and reasonable or not fair but reasonable. As the Proposed Transaction is not fair but reasonable, it is in the best interests of Shareholders, in the absence of a superior offer.

We have evaluated the Proposed Transaction for Shareholders as a whole. We have not considered its effect on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Proposed Transaction is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of this Proposed Transaction on their specific financial circumstances.

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APPENDIX 1: GLOSSARY

Term	Meaning
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited
AUD	Australian Dollar
CAGR	Compound Annual Growth Rate
CAPM	Capital Asset Pricing Model
CFME	Capitalisation of future maintainable earnings
Consideration	0.243 Paragon shares per Quantum share
Corporations Act	The Corporations Act 2001
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax, and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
Fair market value	The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms' length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts
FSG	Financial Services Guide
FY	Financial year
Insight Oceania	Insight Oceania Pty Ltd
IPO	Initial public offering
Item 7	Item 7 of Section 611 of the Corporations Act
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
NAB	National Australia Bank
NPAT	Net profit after tax
P / E	Price to Earnings
Paragon	Paragon Care Limited
Part 3	Part 3 of Schedule 8 of the Corporations Regulations 2001 (Cwlth)
PBT	Profit before tax
Proposed Merged Entity	The merged business of Quantum and Paragon
Proposed Transaction	The acquisition of 100% of the shares in Quantum by Paragon through a scheme of arrangement
Quantum	Quantum Health Group Limited
Related Party Loans	Loans made to Quantum by directors John Walstab and Drew Townsend
RG111	Regulatory Guide 111: Content of Expert Reports
RG74	Regulatory Guide 74: Acquisitions Approved by Members
Section 411	Section 411 of the Corporations Act 2001
Shareholders	Shareholders of Quantum
VWAP	Value weighted average price
WACC	Weighted Average Cost of Capital

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APPENDIX 2: VALUATION METHODOLOGIES

In preparing this report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- The discounted cash flow method
- The capitalisation of earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

The selection of an appropriate valuation method to estimate fair market value should be guided by the actual practices adopted by potential acquirers of the company involved.

Discounted Cash Flow Method

Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- A forecast of expected future cash flows
- An appropriate discount rate

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.

Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- Early stage companies or projects
- Limited life assets such as a mine or toll concession
- Companies where significant growth is expected in future cash flows
- Projects with volatile earnings

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if:

- Reliable forecasts of cash flow are not available and cannot be determined
- There is an inadequate return on investment, in which case a higher value may be realised by liquidating the assets than through continuing the business

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Capitalisation of Earnings Method

Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

- A level of future maintainable earnings
- An appropriate capitalisation rate or multiple.

A multiple can be applied to any of the following measures of earnings:

Revenue – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.

EBITDA - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.

EBITA - in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.

EBIT - whilst commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).

NPAT - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value whole businesses for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing minority interests in a company.

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources. Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX. The merger and acquisition method is a method whereby multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. It is also possible to build a multiple from first principles.

Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- There are no suitable listed company or transaction benchmarks for comparison
- The asset has a limited life
- Future earnings or cash flows are expected to be volatile
- There are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets

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Asset Based Methods

Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset based methods including:

- Orderly realisation
- Liquidation value
- Net assets on a going concern basis
- Replacement cost
- Reproduction cost

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

The asset / cost approach is generally used when the value of the business' assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.

Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- An enterprise is loss making and is not expected to become profitable in the foreseeable future
- Assets are employed profitably but earn less than the cost of capital
- A significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments)
- It is relatively easy to enter the industry (for example, small machine shops and retail establishments)

Asset based methods are not appropriate if:

- The ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets
- A business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets

Analysis of Share Trading

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.

Industry Specific Rules of Thumb

Industry specific rules of thumb are used in certain industries. These methods typically involve a multiple of an operating figure such as eyeballs for internet businesses, numbers of beds for hotels etc. These methods are typically fairly crude and are therefore usually only appropriate as a cross-check to a valuation determined using an alternative method.

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APPENDIX 3: COMPARABLE COMPANIES

The following company descriptions are extracted from descriptions provided by S&P Capital IQ.

Company	Description
AdaptHealth Corp.	AdaptHealth Corp., together with its subsidiaries, provides home healthcare equipment, medical supplies, and home and related services in the United States.
Agiliti, Inc.	Agiliti, Inc. provides healthcare technology management and service solutions to the healthcare industry in the United States.
Ansell Limited	Ansell Limited designs, develops, and manufactures protection solutions in the Asia Pacific, Europe, the Middle East, Africa, Latin America, the Caribbean, and North America.
As One Corporation	As One Corporation engages in the sale of research instruments and equipment, nursing and care products, and other scientific instruments in Japan and internationally.
Australian Pharmaceutical Industries Limited	Australian Pharmaceutical Industries Limited engages in the wholesale distribution and retail of pharmaceutical, medical, health, beauty, and lifestyle products to pharmacies primarily in Australia, New Zealand, and Asian markets.
Cardinal Health, Inc.	Cardinal Health, Inc. operates as an integrated healthcare services and products company in the United States, Canada, Europe, Asia, and internationally.
CHC Healthcare Group	CHC Healthcare Group, through its subsidiaries, engages in the distribution, repair and maintenance, and lease of the medical equipment and related parts, consumables, and medicines in Taiwan, China, and internationally.
Covetrus, Inc.	Covetrus, Inc., together with its subsidiaries, operates as an animal-health technology and services company.
DVx Inc.	DVx Inc. engages in the import/export of medical devices and related peripheral devices in Japan.
EBOS Group Limited	EBOS Group Limited engages in the marketing, wholesale, and distribution of healthcare, medical, pharmaceutical, consumer, and animal care products in Australia and New Zealand.
Great Elm Group, Inc.	Great Elm Group, Inc. engages in the durable medical equipment and investment management businesses.
Henry Schein, Inc.	Henry Schein, Inc. provides health care products and services to dental practitioners and laboratories, physician practices, government, institutional health care clinics, and other alternate care clinics worldwide.
InfuSystem Holdings Inc.	InfuSystem Holdings, Inc., through its subsidiaries, provides infusion pumps, and related products and services in the United States and Canada.
Japan Medical Dynamic Marketing, Inc.	Japan Medical Dynamic Marketing, Inc. develops, manufactures, imports, and sells medical devices in Japan.
Medius Holdings Co., Ltd.	Medius Holdings Co., Ltd. operates in the medical care industry in Japan.
Olba Healthcare Holdings, Inc.	Olba Healthcare Holdings, Inc. provides various solutions to medical institutions, universities, corporate research institutes, individuals, and long-term care facilities in Japan.

Company	Description
Owens & Minor, Inc.	Owens & Minor, Inc., together with its subsidiaries, operates as a healthcare solutions company in the United States and internationally.
Paragon Care Limited	Paragon Care Limited supplies durable medical equipment, medical devices, and consumable medical products to health and aged care markets in Australia, New Zealand, and internationally.
Patterson Companies, Inc.	Patterson Companies, Inc. distributes and sells dental and animal health products in the United States, the United Kingdom, and Canada.
Quantum Health Group Limited	Quantum Health Group Limited distributes medical imaging and patient treatment equipment and services in Australia, Thailand, Korea, the Philippines.
SDI Limited	SDI Limited engages primarily in the research and development, manufacture, and marketing of dental materials for the dental profession.
Sigma Healthcare Limited	Sigma Healthcare Limited, together with its subsidiaries, engages in the wholesale and distribution of pharmaceutical products primarily in Australia.
Steris Plc	Steris Plc provides infection prevention and other procedural products and services worldwide.
WIN-Partners Co., Ltd.	WIN-Partners Co., Ltd., through its subsidiaries, distributes medical devices primarily in Japan.
Yamashita Health Care Holdings, Inc.	Yamashita Health Care Holdings, Inc. engages in the wholesale of medical equipment in Japan.

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APPENDIX 4: CONTROL PREMIUM

The outbreak of COVID-19 and the consequential general decline in share prices is likely to have an impact on implied control premiums in the current environment. Although there is anecdotal evidence from previous economic downturns of control premiums being higher than the long-term average in times of economic distress, it is difficult to quantify the impact of the current environment on long-term estimates based on currently available data. We have therefore presented our analysis of control premiums prior to the outbreak of COVID-19 noting that any reasonable range of control premiums does not impact our conclusion on the Proposed Transaction.

Background

As discussed above, the difference between the control value and the liquid minority value of a security is the control premium. The inverse of a control premium is a minority discount (also known as a discount for lack of control). A control premium is said to exist because the holder of a controlling stake has several rights that a minority holder does not enjoy (subject to shareholders agreements and other legal constraints), including the ability to:

- Appoint or change operational management
- Appoint or change members of the board
- Determine management compensation
- Determine owner's remuneration, including remuneration to related party employees
- Determine the size and timing of dividends
- Control the dissemination of information about the company
- Set strategic focus of the organisation, including acquisitions, divestments and any restructuring
- Set the financial structure of the company (debt / equity mix)
- Block any or all of the above actions

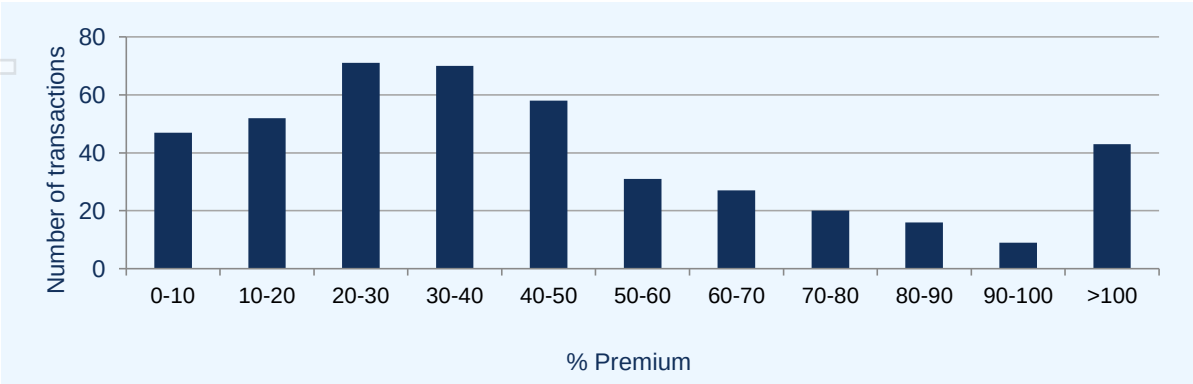
The most common approach to quantifying a control premium is to analyse the size of premiums implied from prices paid in corporate takeovers. Another method is the comparison between prices of voting and non-voting shares in the same company. We note that the size of the control premium should generally be an outcome of a valuation and not an input into one, as there is significant judgement involved.

Takeover Premiums

Dispersion of premiums

The following chart shows the spread of premiums paid in takeovers between 2007 and 2017. We note that these takeover premiums may not be purely control premiums, for example the very high premiums are likely to include synergy benefits, while the very low premiums may be influenced by share prices rising in anticipation of a bid.

Figure 17: Takeover premium by size



Sources: S&P Capital IQ, Leadenhall analysis

This chart highlights the dispersion of premiums paid in takeovers. The chart shows a long tail of high premium transactions, although the most common recorded premiums are in the range of 20% to 40%, with approximately 65% of all premiums falling in the range of 0% to 50%.

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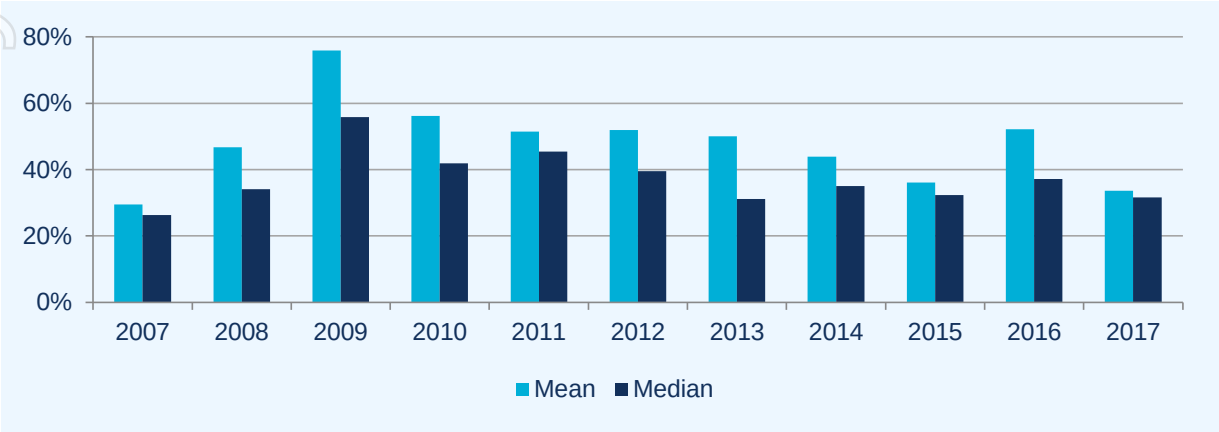
Premiums over time

The following chart shows the average premium paid in completed takeovers compared to the price one month before the initial announcement.

Figure 18: **Average takeover premium (1 month)**



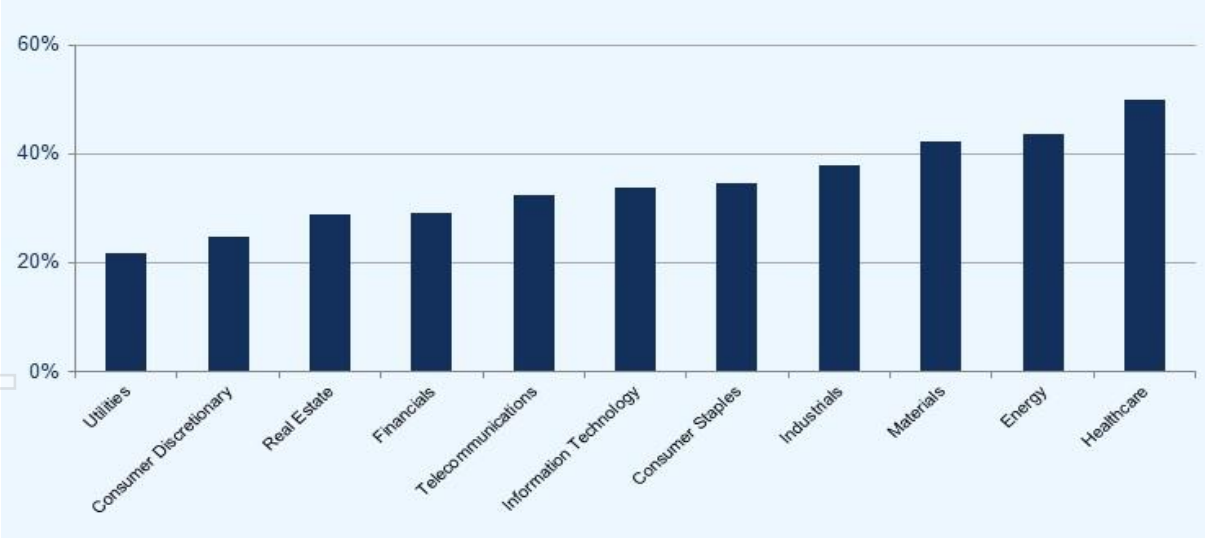
Sources: S&P Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude transactions with implied control premiums below zero and transactions which we consider to be outliers.

The chart indicates that while premiums vary over time, there is no clearly discernible pattern. The mean is higher than the median due to a small number of high premiums.

Premiums by industry

The following chart shows the average takeover premium by industry, compared to the share price one month before the takeover was announced. Most industries show an average premium of 20% to 40%.

Figure 19: Average takeover premium (2007 to 2017)



Sources: S&P Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude specific transactions with implied control premiums below zero or over 100% which we consider to be outliers.

Key factors that generally lead to higher premiums being observed include:

- Competitive tension arising from more than one party presenting a takeover offer.
- Favourable trading conditions in certain industries (e.g. recent mining and tech booms).
- Significant synergistic special or strategic value.
- Scrip offers where the price of the acquiring entity's shares increases between announcement and completion.

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Industry Practice

In Australia, industry practice is to apply a control premium in the range of 20% to 40%, as shown in the following list quoting ranges noted in various independent experts' reports.

- Deloitte - 20% to 40%
- Ernst & Young - 20% to 40%
- Grant Samuel - 20% to 35%
- KPMG - 25% to 35%
- Lonergan Edwards - 30 to 35%
- PwC - 20% to 40%

The range of control premiums shown above is consistent with most academic and professional literature on the topic.

Alternative View

Whilst common practice is to accept the existence of a control premium in the order of 20% to 40%, certain industry practitioners (particularly in the US) disagree with the validity of this conclusion. Those with an alternate viewpoint to the fact that very few listed companies are acquired each year as evidence that 100% of a company is not necessarily worth more than the proportionate value of a small interest. Those practitioners agree that the reason we see some takeovers at a premium is that if a company is not well run, there is a control premium related to the difference in value between a hypothetical well run company and the company being run as it is.

Impact of Methodologies Used

The requirement for an explicit valuation adjustment for a control premium depends on the valuation methodology and approach adopted and the level of value to be examined. It may be necessary to apply a control premium to the value of a liquid minority value to determine the control value. Alternatively, in order to estimate the value of a minority interest, it may be necessary to apply a minority discount to a proportional interest in the control value of the company.

Discounted cash flow

The discounted cash flow methodology generally assumes control of the cash flows generated by the assets being valued. Accordingly, such valuations reflect a premium for control. Where a minority value is sought a minority discount must therefore be applied. The most common exception to this is where a discounted dividend model has been used to directly determine the value of an illiquid minority holding.

Capitalisation of earnings

Depending on the type of multiple selected, the capitalisation of earnings methodology can reflect a control value (transaction multiples) or a liquid minority value (listed company trading multiples).

Asset based methodologies

Asset based methodologies implicitly assume control of the assets being valued. Accordingly, such valuations reflect a control value.

Intermediate Levels of Ownership

There are a number of intermediate levels of ownership between a portfolio interest and 100% ownership. Different levels of ownership/strategic stakes will confer different degrees of control and rights as shown below.

- 90% - can compulsory purchase remaining shares if certain conditions are satisfied
- 75% - power to pass special resolutions
- 50% - gives control depending on the structure of other interests (but not absolute control)
- 25% - ability to block a special resolution
- 20% - power to elect directors, generally gives significant influence, depending on other shareholding blocks
- < 20% generally has only limited influence

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Conceptually, the value of each of these interests lies somewhere between the portfolio value (liquid minority value) and the value of a 100% interest (control value). Each of these levels confers different degrees of control and therefore different levels of control premium or minority discount.

50%

For all practical purposes, a 50% interest confers a similar level of control to holdings of greater than 50%, at least where the balance of the shares is listed and widely held. Where there are other significant holders, such as in a 50/50 joint venture, 50% interests involve different considerations depending upon the particular circumstances.

Strategic parcels do not always attract a control premium. In fact, if there is no bidder, the owner may be forced to sell the shares through the share market, usually at a discount to the prevailing market price. This reflects the fact that the sale of a parcel of shares significantly larger than the average number of shares traded on an average day in a particular stock generally causes a stock overhang, therefore there is more stock available for sale than there are buyers for the stock and in order to clear the level of stock available, the share price is usually reduced by what is referred to as a blockage discount.

20% to 50%

Holdings of less than 50% but more than 20% can confer a significant degree of influence on the owner. If the balance of shareholders is widely spread, a holding of less than 50% can still convey effective control of the business. However, it may not provide direct ownership of assets or access to cash flow. This level of holding has a strategic value because it may allow the holder significant influence over the company's management, possibly additional access to information and a board seat.

<20%

Holdings of less than 20% are rarely considered strategic and would normally be valued in the same way as a portfolio interest given the stake would not be able to pass any ordinary or special resolution on their own if they were against the interests of the other shareholders. Depending on the circumstances, a blockage discount may also apply.

As explained above, the amount of control premium or minority discount that would apply in specific circumstances is highly subjective. In relation to the appropriate level of control premium,
Aswath Damodaran notes "the value of controlling a firm has to lie in being able to run it differently (and better)". A controlling shareholder will be able to implement their desired changes. However, it is not certain that a non-controlling shareholder would be able to implement changes they desired. Thus, following the logic of Damodaran and the fact that the strategic value of the holding typically diminishes as the level of holding decreases, the appropriate control premium for a non-controlling shareholder should be lower than that control premium for a controlling stake.

Key Factors in Determining a Reasonable Control Premium

Key factors to consider in determining a reasonable control premium include:

- **Size of holding** – Generally, larger stakes attract a higher control premium
- **Other holdings** – The dispersion of other shareholders is highly relevant to the ability for a major shareholder to exert control. The wider dispersed other holdings are, the higher the control premium
- **Industry premiums** – Evidence of premiums recently paid in a given industry can indicate the level of premium that may be appropriate
- **Size** – medium sized businesses in a consolidating industry are likely to be acquired at a larger premium than other businesses
- **Dividends** – a high dividend pay-out generally leads to a low premium for control
- **Gearing** – a company that is not optimally geared may attract a higher premium than otherwise, as the incoming shareholder has the opportunity to adjust the financing structure
- **Board** – the ability to appoint directors would increase the control premium attaching to a given parcel of shares. The existence of independent directors would tend to decrease the level of premium as this may serve to reduce any oppression of minority interests and therefore support the level of the illiquid minority value
- **Shareholders' agreement** - the existence and contents of a shareholder's agreement, with any protection such as tag along and drag along rights offered to minority shareholders lowers the appropriate control premium.
-

APPENDIX 5: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for Quantum's shareholders for the purpose of assessing the fairness and reasonableness of the Proposed Transaction. Leadenhall expressly disclaims any liability to any shareholder, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

Reliance on information

In preparing this report we relied on the information provided to us by Quantum being complete and accurate and we have assumed it has been prepared in accordance with applicable Accounting Standards and relevant national and state legislation. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued Quantum's management for confirmation of factual accuracy.

To the extent that this report refers to prospective financial information, we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Leadenhall's consideration of this information consisted of enquiries of Quantum's personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with Australian Auditing Standards, or any other standards. Nothing has come to our attention as a result of these enquiries to suggest that the financial projections for Quantum, when taken as a whole, are unreasonable for the purpose of this report.

We note that the forecasts and projections supplied to us are, by definition, based upon assumptions about events and circumstances that have not yet transpired. Actual results in the future may be different from the prospective financial information of Quantum referred to in this report and the variation may be material, since anticipated events frequently do not occur as expected. Accordingly we give no assurance that any forecast results will be achieved. Any future variation between the actual results and the prospective financial information utilised in this report may affect the conclusions included in this report.

Market conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

As a valuation is based upon expectations of future results it involves significant judgement. Although we consider the assumptions used and the conclusions reached in this report are reasonable, other parties may have alternative expectations of the future, which may result in different valuation conclusions. The conclusions reached by other parties may be outside Leadenhall's preferred range

Indemnities

In recognition that Leadenhall may rely on information provided by Quantum and their officers, employees, agents or advisors, Quantum has agreed that it will not make any claim against Leadenhall to recover any loss or damage which it may suffer as a result of that reliance and that it will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by Quantum and their officers, employees, agents or advisors or the failure by Quantum and their officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin, Dave Pearson, BCom., CA, CFA, CBV, M.App.Fin, Nathan Timosevski, BBus, Grad Dip App Fin, BV Specialist, CA, A.FINSIA, Katy Lawrence, BCom., Grad Dip App Fin, BV Specialist, CA and Vicky Lau, BCom.,CA.

This report has been prepared in accordance with "APES 225 – Valuation Services" issued by the Accounting Professional & Ethical Standards Board and this report is a valuation engagement in accordance with that standard and the opinion is a Conclusion of Value.

Independence

Leadenhall has acted independently of Quantum. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.

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Annexure 2 – Scheme

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Quantum Health Group Limited

Each person registered in the Target Register as the holder of Scheme Shares as at the Record Date

Scheme of Arrangement

JOHNSON WINTER & SLATTERY

Level 25, 20 Bond Street
SYDNEY NSW 2000
T +61 2 8274 9555 | F +61 2 8274 9500
www.jws.com.au
Liability limited by a scheme approved under Professional Standards Legislation

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Scheme of Arrangement

Date

Parties

1 **Quantum Health Group Limited** (ABN 19 003 677 245) (**Target**)

Address: 22 Rosebery Avenue, Rosebery, NSW 2018

Email: jwalstab@qhealthcare.com.au

Contact: John Walstab

2 **Each person registered in the Target Register as the holder of Scheme Shares as at the Record Date** (**Scheme Shareholder**)

Operative part

1 Definitions and interpretation

1.1 Definitions

The following definitions apply in this document, unless the context requires otherwise.

In this Scheme:

ASIC means the Australian Securities and Investment Commission.

ASX means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

ASX Listing Rules means the official listing rules of the ASX.

Bidder means Paragon Care Limited (ABN 76 064 551 426).

Bidder Group means the Bidder and its Related Bodies Corporate.

Bidder Constitution means any constitution adopted by the Bidder and, except to the extent overridden by such a constitution, the replaceable rules specified in section 141 of the Corporations Act.

Bidder Registry means Link Market Services Limited.

Bidder Share means a fully paid ordinary share in the Bidder.

Bidder Shareholder means a person who is recorded in the register of members of the Bidder as the holder of Bidder Shares.

Business Day has the meaning given in the ASX Listing Rules.

CHESS means the Clearing House Electronic Subregister System for electronic transfers of securities operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Consideration Share means a Bidder Share issued as Scheme Consideration.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of New South Wales or such other court of competent jurisdiction under the Corporations Act as agreed by the Target and the Bidder in writing.

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Deed Poll means the deed poll dated 15 December 2021 under which the Bidder covenants in favour of the Scheme Shareholders to perform the obligations attributed to it under this Scheme.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) in relation to the Scheme.

Effective Date means the date upon which the Scheme becomes Effective.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any "security interest" as defined in sections 12(1) or 12(2) of the PPSA or any agreement to create any of them or allow them to exist.

End Date means seven months after the date of the Scheme Implementation Deed or such other date as the Target and the Bidder agree in writing.

Governmental Agency means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity in any jurisdiction. It includes ASIC, ASX (and any other securities exchange) and the Takeovers Panel and any self-regulatory organisation established under statute.

Ineligible Foreign Shareholder mean a Scheme Shareholder whose address shown in the Target Register on the Record Date is a place outside Australia and its external territories or New Zealand (or any other jurisdictions agreed by the parties in writing (each acting reasonably)), unless the Target and the Bidder (each acting reasonably) determine that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with Consideration Shares when the Scheme becomes Effective.

Implementation Date means the fifth Business Day following the Record Date or such other date agreed by the Target and Bidder in writing.

PPSA means the *Personal Property Securities Act 2009* (Cth).

Proceeds has the meaning given in clause 5.4(a)(ii).

Record Date means 7pm (Sydney time) on the fifth Business Day following the Effective Date or such other date as the Target and the Bidder agree in writing.

Registered Address means, in relation to a Scheme Shareholder, their address as shown in the Target Register as at the Record Date.

Related Body Corporate has the meaning given in the Corporations Act.

Sale Agent means a person appointed by the Target to sell the Consideration Shares that are to be issued to Ineligible Foreign Shareholders.

Scheme means this scheme of arrangement under Part 5.1 of the Corporations Act between the Target and the Scheme Shareholders, subject to any alterations or conditions (whether proposed by a party or made or required by the Court) which are agreed in writing by the Target and the Bidder.

Scheme Booklet means the explanatory statement to be approved by the Court and despatched by the Target to Target Shareholders, and which includes, amongst other things, the Scheme and an explanatory statement under section 412 of the Corporations Act.

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Scheme Consideration means the consideration to be provided or procured by the Bidder to Scheme Shareholders in consideration for the transfer of the Scheme Shares held by Scheme Shareholders to the Bidder, being 0.243 Consideration Shares per Scheme Share.

Scheme Implementation Deed means the scheme implementation deed dated 6 November 2021 between the Target and the Bidder relating to the implementation of this Scheme, as amended, substituted or replaced from time to time.

Scheme Meeting means the meeting of the Target Shareholders ordered by the Court to be convened under subsection 411(1) of the Corporations Act to consider and vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

Scheme Share means a Target Share on issue as at the Record Date.

Scheme Shareholder means a Target Shareholder as at the Record Date.

Scheme Transfer means, in relation to each Scheme Shareholder, a duly completed and executed proper instrument of transfer of their Scheme Shares to the Bidder for the purpose of section 1071B of the Corporations Act, which will be in the form of a master share transfer form of all of the Scheme Shares.

Second Court Date means the first day on which the application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is, or is to be, heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

Target Register means the register of members of the Target.

Target Registry means Boardroom Pty Ltd.

Target Share means a fully paid ordinary share in the Target.

Target Shareholder means a person who is recorded in the Target Register as the holder of the Target Shares at the time of the relevant inquiry or as at the referenced date.

1.2 Interpretation

In this Scheme, the following rules of interpretation apply unless a contrary intention appears.

(a) Any heading, index, table of contents or marginal note is for convenience only and does not affect the interpretation of this document.

(b) The singular includes the plural and vice versa.

(c) A person includes an individual, body corporate, firm, partnership, joint venture, unincorporated body and Governmental Agency.

(d) A reference to:

(i) a person includes that person's successors, permitted substitutes and permitted assigns;

(ii) a clause, schedule, attachment, annexure or exhibit is to a clause of, or a schedule, attachment, annexure or exhibit to, this document;

(iii) this document or another document includes that document as amended, varied, supplemented, novated or replaced from time to time and any schedule, attachment, annexure or exhibit to that document;

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(iv) "agreement" includes an undertaking, deed, contract or other legally enforceable arrangement, whether or not in writing, and a reference to "document" includes an agreement (as so defined) in writing or any certificate, notice, instrument or other document of any kind;

(v) legislation or a provision of legislation includes all regulations, orders or instruments issued under that legislation or provision and any modification, consolidation, amendment, re-enactment, replacement or codification of such legislation or provision;

(vi) "include", "including" and "for example", and similar expressions, when introducing a list of items, does not limit the meaning of the words to which the list relates to those items or to items of a similar kind;

(vii) dollars or $ is to Australian dollars; and

(viii) time is to the time in Sydney, New South Wales.

(e) Where a word or expression is defined or given meaning, another grammatical form has a corresponding meaning.

(f) A provision of this document must not be construed to the disadvantage of a party merely because that party was responsible for the preparation of this document or the inclusion of the provision in this document.

(g) A period of time expressed to commence:

(i) before or after a given day, or before or after the day of an act or event, is to be calculated exclusive of that day; and

(ii) on a given day, or on the day of an act or event, is to be calculated inclusive of that day.

2 Preliminary

(a) The Target is a public company limited by shares, incorporated in Australia and registered in New South Wales, Australia. The Target is admitted to the official list of the ASX and the Target Shares are officially quoted on the ASX.

(b) As at the date of the Scheme Implementation Deed, 1,128,308,291 Target Shares were on issue.

(c) The Bidder is a corporation incorporated in Australia and registered in Western Australia, Australia. The Bidder is admitted to the official list of the ASX and the Bidder Shares are officially quoted on the ASX.

(d) As at the date of the Scheme Implementation Deed:

(i) 351,400,699 Bidder Shares; and

(ii) 11,414,507 performance rights.

were on issue.

(e) The Target and the Bidder have agreed, by executing the Scheme Implementation Deed, to implement this Scheme.

(f) If this Scheme becomes Effective, each of the following will occur:

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(i) all of the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, will be transferred to the Bidder;

(ii) in consideration of the transfer of the Scheme Shares to the Bidder, the Bidder will provide or procure the provision of the Scheme Consideration to the Scheme Shareholders in accordance with this Scheme and the Deed Poll;

(iii) the Target will enter the Bidder's name in the Target Register as the holder of all of the Scheme Shares; and

(iv) the Bidder will enter the names of each Scheme Shareholder in the Bidder Register as the holder of their Consideration Shares.

(g) This Scheme attributes actions to the Bidder but does not itself impose an obligation on it to perform those actions. The Bidder has agreed, by executing the Deed Poll, to perform the actions attributed to it under this Scheme, including the provision or procuring the provision of the Scheme Consideration to the Scheme Shareholders subject to the Scheme becoming Effective.

3 Conditions precedent

3.1 Conditions precedent

This Scheme is conditional upon and will have no force or effect until each of the following conditions precedent is satisfied:

(a) as at 8am on the Second Court Date, neither the Scheme Implementation Deed nor the Deed Poll has been terminated in accordance with its terms;

(b) all of the conditions precedent set out in clause 2.1 of the Scheme Implementation Deed (other than the condition precedent in clause 2.1(c) (*Court approval*) of the Scheme Implementation Deed) have been satisfied or waived in accordance with the terms of the Scheme Implementation Deed;

(c) the Court having approved this Scheme, with or without modification or condition, pursuant to section 411(4)(b) of the Corporations Act, and if applicable, the Target and (if required by clause 3.2 of the Scheme Implementation Deed) the Bidder having accepted in writing any modification or condition made or required by the Court under section 411(6) of the Corporations Act;

(d) such other conditions made or required by the Court under subsection 411(6) of the Corporations Act in relation to this Scheme and agreed to by the Target and the Bidder having been satisfied or waived; and

(e) the coming into effect, pursuant to section 411(10) of the Corporations Act on or before the End Date (or any later that the Target and Bidder agree in writing), of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

3.2 Conditions precedent and operation of clauses 4 and 5

The satisfaction of each condition of clause 3.1 is a condition precedent to the operation of clauses 4 and 5, which will not come into effect unless and until each of those conditions have been satisfied.

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3.3 Certificate

(a) At the Court hearing on the Second Court Date, the Target, and the Bidder will each provide the Court with a certificate (or such other evidence as the Court may request) confirming (in respect of matters within its own knowledge) whether or not all of the conditions in clause 3.1(a) and 3.1(b) have been satisfied.

(b) Where the certificates disclose that any of those conditions precedent has been satisfied or waived in accordance with the terms of the Scheme Implementation Deed, they will constitute conclusive evidence (in the absence of manifest error) of the satisfaction or waiver of the condition (as the case may be).

3.4 Lapse of Scheme

Without limiting any rights under the Scheme Implementation Deed, unless the Bidder and the Target agree otherwise in writing, the Scheme will lapse and be of no further force or effect if the Scheme Implementation Deed or the Deed Poll is terminated in accordance with its terms, or if the Effective Date does not occur by the End Date unless the Target and the Bidder otherwise agree in writing.

4 Implementation of the Scheme

4.1 Lodgement of Court orders

(a) By no later than 4pm on the first Business Day following the date on which the Court makes orders approving the Scheme (or such later date as agreed in writing by the Bidder), the Target must lodge with ASIC an office copy of the Court order approving this Scheme in accordance with section 411(10) of the Corporations Act.

(b) Subject to clause 3.4, this Scheme will become Effective on and from the Effective Date.

4.2 Transfer of Scheme Shares

Subject to this Scheme becoming Effective in accordance with clause 4.1, the following actions will occur (in the order set out below) on the Implementation Date:

(a) subject to the provision of the Scheme Consideration in the manner contemplated by clause 5, all of the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, must be transferred to the Bidder without the need for any further act by any Scheme Shareholder (other than acts performed by the Target or any of its directors or officers as attorney and agent for Scheme Shareholders under clause 7.6), by:

(i) the Target delivering to the Bidder a duly completed Scheme Transfer, executed on behalf of the Scheme Shareholders by the Target, for registration; and

(ii) the Bidder duly executing the Scheme Transfer, attending to the stamping of the Scheme Transfer (if required) and delivering it to the Target for registration;

(b) immediately following receipt of the duly executed Scheme Transfer from the Bidder under clause 4.2(a)(ii), but subject to the stamping of the Scheme Transfer (if required), the Target must enter, or must procure the entry of, the name and address of the Bidder in the Target Register as the holder of the Scheme Shares; and

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(c) the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to the Bidder will, at the time of transfer of them to the Bidder, vest in the Bidder free from all Encumbrances, third party interests (whether legal or equitable) or restrictions on transfer.

5 Scheme Consideration

5.1 Provision of Scheme Consideration

Subject to clauses 5.3, 5.4 and 5.5:

(a) on or before the Implementation Date, the Bidder must issue the Scheme Consideration to the Scheme Shareholders and procure that the name and address of each Scheme Shareholder is entered in the Bidder Register in respect of those Consideration Shares; and

(b) on or before the date that is five Business Days after the Implementation Date, the Bidder must send or procure the sending of a share certificate or holding statement (or equivalent document) to the Registered Address of each Scheme Shareholder, representing the number of Consideration Shares issued to the Scheme Shareholder pursuant to this Scheme.

5.2 Status of Consideration Shares

Subject to this Scheme becoming Effective, the Bidder must:

(a) issue the Consideration Shares required to be issued by it under this Scheme on terms such that each such Consideration Share will rank equally in all respects with each other Bidder Share on issue at the time and will have the rights set out in the Bidder Constitution;

(b) ensure that each such Consideration Share is duly and validly issued in accordance with all applicable laws and the Bidder Constitution, and is fully paid and free from any Encumbrances, third party interests (whether legal or equitable) or restrictions on transfer; and

(c) use all reasonable endeavours to ensure that such Consideration Shares are, from the Business Day following the date this Scheme becomes Effective (or such later date as ASX requires), quoted for trading on the ASX initially on a deferred settlement basis and, with effect from the Business Day following the Implementation Date, on an ordinary (T+2) settlement basis.

5.3 Joint holders

In the case of Scheme Shares held in joint names:

(a) the Consideration Shares to be issued by the Bidder under this Scheme must be issued to and registered in the Bidder Register in names of the joint holders; and

(b) any other document required to be sent under this Scheme, will be forwarded to the holder whose name appears first in the Target Register as at the Record Date.

5.4 Ineligible Foreign Shareholders

(a) The Bidder will be under no obligation to issue any Consideration Shares under this Scheme to any Ineligible Foreign Shareholder and instead:

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(i) subject to clause 5.6, Bidder must, on or before the Implementation Date, issue such Consideration Shares which would otherwise be required to be issued to those Ineligible Foreign Shareholders under this Scheme to the Sale Agent;

(ii) the Bidder must procure that as soon as reasonably practicable on or after the Implementation Date and in any event no more than 30 Business Days after the Implementation Date, the Sale Agent:

(A) in consultation with the Bidder and the Target, sells or procures the sale of all the Consideration Shares issued to the Sale Agent pursuant to clause 5.4(a)(i) on the ASX: and

(B) remits to the Target the proceeds received from the sale under clause 5.4(a)(ii)(A), after deducting any reasonable and applicable fees, brokerage, stamp duty, currency conversion costs, taxes and charges (**Proceeds**);

(iii) promptly after receiving the Proceeds in respect of the sale of all of the Consideration Shares referred to in clause 5.4(a)(i), the Target must pay, or procure the payment, to each Ineligible Foreign Shareholder, of the amount '**A**' calculated in accordance with the following formula and rounded down to the nearest cent:

A = (B ÷ C) x D

where

B = the number of Consideration Shares that would otherwise have been issued to that Ineligible Foreign Shareholder had it not been an Ineligible Foreign Shareholder and which were issued to the Sale Agent;

C = the total number of Consideration Shares which would otherwise have been issued to all Ineligible Foreign Shareholders and which were issued to the Sale Agent; and

D = the Proceeds (as defined in clause 5.4(a)(ii)).

(b) The Ineligible Foreign Shareholders acknowledge that none of the Target, the Bidder or the Sale Agent gives any assurance as to the price that will be achieved for the sale of Consideration Shares described in clause 5.4(a) and that Target, the Bidder and the Sale Agent expressly disclaim any fiduciary duty to the Ineligible Foreign Shareholders which may arise in connection with this clause 5.4.

(c) The Target must make, or procure the making of, payments to Ineligible Foreign Shareholders under clause 5.4(a) by either (in the absolute discretion of the Target):

(i) where an Ineligible Foreign Shareholder has, before the Record Date, made a valid election in accordance with the requirements of the Target Registry to receive dividend payments from the Target by electronic funds transfer to a bank account nominated by that Ineligible Foreign Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election;

(ii) paying, or procuring the payment of, the relevant amount in Australian currency by electronic means to a bank account nominated by the relevant Ineligible Foreign Shareholder by an appropriate authority from that Ineligible Foreign Shareholder to the Target; or

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(iii) dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian currency to the Ineligible Foreign Shareholder by prepaid post to their Registered Address, such cheque being drawn in the name of that Ineligible Foreign Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 5.3).

(d) If the Target receives professional advice that any withholding or other tax is required by law or by a Government Agency to be withheld from a payment to an Ineligible Foreign Shareholder, the Target is entitled to withhold the relevant amount before making the payment to the Ineligible Foreign Shareholder (and payment of the reduced amount shall be taken to be full payment of the relevant amount for the purposes of this Scheme, including clause 5.4(a)(iii)). The Target must pay any amount so withheld to the relevant taxation authorities within the time permitted by law, and, if requested in writing by the relevant Ineligible Foreign Shareholder, provide a receipt or other appropriate evidence of such payment (or procure the provision of such receipt or other evidence) to the relevant Ineligible Foreign Shareholder.

(e) Each Ineligible Foreign Shareholder appoints the Target as its agent to receive on its behalf any financial services guide (or similar or equivalent document) or other notices (including any updates of those documents) that the Sale Agent is required to provide to those Ineligible Foreign Shareholders under the Corporations Act or any other applicable law.

(f) Payment of the amount calculated in accordance with clause 5.4(a) to an Ineligible Foreign Shareholder in accordance with this clause 5.4 satisfies in full the Ineligible Foreign Shareholder's right to Scheme Consideration.

(g) Where the issue of Consideration Shares to which a Scheme Shareholder would otherwise be entitled under this Scheme would result in a breach of law:

(i) the Bidder will issue the maximum possible number of Consideration Shares to the Scheme Shareholder without giving rise to such a breach; and

(ii) any further Consideration Shares to which that Scheme Shareholder is entitled, but the issue of which to the Scheme Shareholder would give rise to such a breach, will instead be issued to the Sale Agent and dealt with under the preceding provisions in this clause 5.4, as if a reference to Ineligible Foreign Shareholders also included that Scheme Shareholder and references to that person's Consideration Schemes in that clause were limited to the Consideration Shares issued to the Sale Agent under this clause.

(h) To the extent that a cheque properly despatched by or on behalf of the Target pursuant to clause 5.4(c)(iii) is returned to the Target (or its agents) as undelivered or the cheque is not presented by a Scheme Shareholder earlier than six months after the Implementation Date (**Unclaimed Consideration**):

(i) the Target may cancel the cheque and credit the amount to a separate bank account of the Target until the Unclaimed Consideration is claimed or otherwise dealt with in accordance with any applicable unclaimed moneys legislation; and

(ii) subject to the Target complying with its obligations under clause 5.4(h)(i) the Target is discharged from liability to any Scheme Shareholder in respect of the Unclaimed Consideration.

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(i) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 7 of the *Unclaimed Money Act 1995* (NSW)).

5.5 Fractional entitlements

Where the calculation of the Scheme Consideration to be provided to a particular Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a Consideration Share, the fractional entitlement will be rounded down to the nearest whole number of Consideration Shares.

5.6 Orders of a court or Governmental Agency

If written notice is given to the Target (or the Target Registry) or the Bidder (or the Bidder Registry) of an order or direction made by a court of competent jurisdiction or by another Governmental Agency:

(a) which requires payment to a third party (either through payment of a sum or the issuance of a security) in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable or required to be issued to that Scheme Shareholder by the Bidder in accordance with this clause 5, then the Target or the Bidder (as applicable) shall be entitled to procure that provision of that consideration is made in accordance with that order or direction; or

(b) which would prevent the Bidder from providing consideration to any particular Scheme Shareholder in accordance with this clause 5, or the issuance of such consideration is otherwise prohibited by applicable law, the Target or the Bidder (as applicable) shall be entitled:

(i) in the case of an Ineligible Foreign Shareholder, to retain an amount, in Australian dollars, equal to the relevant Ineligible Foreign Shareholder's share of the Proceeds; or

(ii) not to issue, or to issue to a trustee or nominees such number of Consideration Shares as that Scheme Shareholder would otherwise be entitled to under clause 5.1

until such time as provision of the Scheme Consideration in accordance with this clause 5 is permitted by that (or another) order or direction or otherwise by law.

6 Dealings in Target Shares

6.1 Determination of Scheme Shareholders

(a) For the purpose of establishing who is a Scheme Shareholder, dealings in the Target Shares or other alterations to the Target Register will only be recognised if:

(i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Target Register as the holder of the relevant Target Shares by the Record Date; and

(ii) in all other cases, registrable transfers or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at the place where the Target Register is kept by 5pm on the Record Date,

and the Target will not accept for registration or recognise for any purpose (except a transfer to the Bidder under this Scheme and any subsequent transfer by the Bidder

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or its successors in title) any transfer or transmission application or other such request in respect of the Target Shares received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

(b) The Target must register any registrable transfers or transmission applications of the type referred to in clause 6.1(a)(ii) by the Record Date, provided that, for the avoidance of doubt, nothing in this clause 6.1(b) requires the Target to register a transfer that would result in a Scheme Shareholder holding a parcel of Target Shares that is less than a 'marketable parcel' (as that term is defined in the ASX Listing Rules).

6.2 Target Register

(a) The Target must, until the Scheme Consideration has been provided to Scheme Shareholders in accordance with this Scheme and the name and address of the Bidder has been entered in the Target Register as the holder of all Scheme Shares, maintain or procure the maintenance of the Target Register in accordance with the provisions of this clause 6 and the Target Register in this form will solely determine entitlements to Scheme Consideration.

(b) As from the Record Date (other than for the Bidder after the Implementation Date), each entry current at that time in the Target Register in relation to the Scheme Shares will cease to be of any effect other than as evidence of the entitlement of Scheme Shareholders to the Scheme Consideration in accordance with this Scheme in respect of those Scheme Shares.

6.3 Certificates and holding statements

All certificates and statements of holding for Scheme Shares held by Scheme Shareholders shall, following the Record Date, cease to have any effect as documents of title in respect of such Scheme Shares.

6.4 Provision of information

(a) As soon as practicable after the Record Date and in any event at least three Business Days before the Implementation Date, the Target must, or must procure, details of the names, Registered Addresses and registered holdings of Scheme Shares of each Scheme Shareholder as at the Record Date are given to the Bidder in the form the Bidder reasonably requires.

(b) Each Scheme Shareholder agrees that this information may be disclosed to the Bidder, the Bidder Registry and the Bidder's advisers and other service providers to the extent necessary to effect the Scheme.

6.5 No disposals after Record Date

If the Scheme becomes Effective, each Scheme Shareholder, and any person claiming through that Scheme Shareholder, must not in any way, deal with or dispose of or purport or agree to deal with or dispose of, any Scheme Shares or any interest in them except as set out in the Scheme, after the Record Date and any attempt to do so will be void and will have no legal effect whatsoever.

6.6 Quotation of Target Shares

(a) The Target must apply for suspension of trading in the Target Shares on the ASX with effect from the close of trading on ASX on the Effective Date.

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(b) At a date on or after the Implementation Date to be determined by the Bidder, the Target will apply to ASX:

(i) for termination of the official quotation of the Target Shares on ASX; and

(ii) to have itself removed from the official list of ASX.

7 General Scheme provisions

7.1 Binding effect of Scheme

Each Scheme Shareholder acknowledges that this Scheme binds the Target and all of the Scheme Shareholders (including those who do not attend the members' meeting of the Target to approve the Scheme or do not vote at that meeting or who vote against the Scheme at the meeting) and, to the extent of any inconsistency and as permitted by law, overrides the constitution of the Target.

7.2 Agreement by Scheme Shareholders

Each Scheme Shareholder (and, in respect of clause 7.2(c) only, the Sale Agent on behalf of all Ineligible Foreign Shareholders) irrevocably:

(a) agrees to transfer its Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares to the Bidder in accordance with this Scheme;

(b) agrees to any variation, cancellation or modification (if any) of the rights attached to its Scheme Shares constituted by or resulting from this Scheme;

(c) agrees to become a member of the Bidder and to be bound by the terms of the Bidder Constitution;

(d) who holds their Scheme Shares in a CHESS Holding agrees to the conversion of those Scheme Shares to an Issuer Sponsored Holding and irrevocably authorises the Target to do anything necessary or expedient (whether required by the Settlement Rules or otherwise) to effect or facilitate such conversion; and

(e) acknowledges and agrees that this Scheme binds the Target and all Scheme Shareholders (including those who do not attend the Scheme Meeting and those who do not vote, or vote against this Scheme, at the Scheme Meeting).

7.3 Warranties by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to the Target and the Bidder, and to have appointed and authorised the Target as its attorney and agent to warrant to the Bidder on the Implementation Date, that:

(a) all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, at the date of transfer of them to the Bidder pursuant to the Scheme, be fully paid and free from all Encumbrances, third party interests (whether legal or equitable) or restrictions on transfer of any kind; and

(b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) to the Bidder under the Scheme. The Target undertakes that it will provide such warranty to the Bidder and attorney of each Scheme Shareholder; and

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(c) they have no existing right to be issued any Target Shares or other securities in the Target. The Target undertakes that it will provide such warranty to the Bidder as agent and attorney of each Scheme Shareholder.

7.4 Title to and rights in Scheme Shares

To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to the Bidder will, at the time of transfer of them to the Bidder vest in the Bidder free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise and free from any restrictions on transfer of any kind.

7.5 Pending registration of transfers

Immediately upon the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clause 5.1(a), and until the Target registers the Bidder as the holder of all Scheme Shares in the Target Register:

(a) the Bidder will be beneficially entitled to the Scheme Shares transferred to it under this Scheme;

(b) each Scheme Shareholder is deemed to have irrevocably appointed the Bidder as attorney and agent (and directed the Bidder in each capacity) to appoint any director, officer, secretary or agent nominated by the Bidder as its sole proxy and, where appropriate, its corporate representative, to attend the meetings of holders of Target Shares, exercise the votes attached to the Scheme Shares registered in their name and sign any resolution of holders of Target Shares (and each Scheme Shareholder acknowledges and agrees that as a result of each appointment they must not themselves attend or vote at any meetings or sign any resolution whether in person or by proxy or corporate representative);

(c) each Scheme Shareholder must take all other action in the capacity of a registered holder of Scheme Shares as the Bidder reasonably directs; and

(d) each Scheme Shareholder acknowledges and agrees that in exercising the powers referred to in this clause 7.4, the Bidder and any director, officer, secretary or agent nominated by the Bidder under clause 7.4 may act in the best interests of the Bidder as the intended registered holder of Scheme Shares.

7.6 Authority to Target

(a) Each Scheme Shareholder, without the need for any further act, irrevocably appoints the Target and each of its directors and officers (jointly, severally or jointly and severally) as its agent and attorney for the purpose of:

(i) executing any document or doing any other act necessary, expedient or desirable to give effect to the terms of this Scheme and the transactions contemplated by it including (without limitation) the execution and provision of the Scheme Transfer;

(ii) executing and delivering any deed or document required by the Target or the Bidder, that causes each Scheme Shareholder to become a shareholder of Bidder and to be bound by the Bidder Constitution; and

(iii) enforcing the Deed Poll against the Bidder,

and the Target accepts each such appointment. The Target as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers

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under this clause 7.6 to all or any of its directors and officers (jointly, severally or jointly and severally).

(b) The Target undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against the Bidder on behalf of and as agent and attorney for each Scheme Shareholder.

7.7 Instructions and elections

If not prohibited by law (and including where permitted or facilitated by relief granted by a Government Agency), all instructions, notifications or elections by a Scheme Shareholder to the Target that are binding or deemed binding between the Scheme Shareholder and the Target relating to the Target or the Scheme Shares, including instructions, notifications or elections relating to:

(a) whether dividends are to be paid by cheque or into a specific bank account;

(b) payments of dividends on Scheme Shares; and

(c) notices or other communications from the Target (including by email),

will be deemed from the Implementation Date (except to the extent determined otherwise by the Bidder in its sole discretion), by reason of this Scheme, to be made by the Scheme Shareholder to the Bidder and to be a binding instruction, notification or election to, and accepted by, the Bidder in respect of the Consideration Shares issued to that Scheme Shareholder until that instruction, notification or election is revoked or amended in writing addressed to the Bidder at the Bidder Registry.

7.8 Amendments to the Scheme

If the Court proposes to approve the Scheme subject to any alterations or conditions:

(a) the Target may consent on behalf of all persons concerned, by its counsel or solicitors, to those alterations or conditions to which (if required by clause 3.2 of the Scheme Implementation Deed) the Bidder has provided its prior written consent; and

(b) each Scheme Shareholder agrees to any such alterations or conditions which the Target has consented to.

8 General

8.1 Stamp duty

The Bidder must:

(a) pay all stamp duty (if any) and any related fines and penalties payable in connection with the transfer of the Scheme Shares under this Scheme; and

(b) indemnify each Scheme Shareholder against any liability incurred by the Scheme Shareholder arising from the Bidder's failure to comply with clause 8.1.

8.2 Indemnities

Unless this document provides otherwise:

(a) each indemnity in this document is a continuing obligation, separate and independent from the other obligations of the parties, and survives termination, completion or expiration of this document;

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(b) it is not necessary for a person to incur expense or make any payment before enforcing a right of indemnity conferred by this document; and

(c) the making of a claim by a person under an indemnity contained in this document in respect of a particular event does not preclude that person from subsequently making further claims under that indemnity in respect of the same event.

8.3 Further assurance

Each Scheme Shareholder and the Target will execute all documents and do all acts and things as may be necessary or desirable to give full effect to the Scheme and the transactions contemplated by it.

8.4 Notices

(a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to the Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at the registered office of the Target.

(b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a Target Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

8.5 Governing law and jurisdiction

This document is governed by the laws of New South Wales. Each party irrevocably submits to the non-exclusive jurisdiction of the courts of New South Wales, and Commonwealth courts having jurisdiction in that place and waives any right to object to proceedings being brought in those courts on the basis that proceedings have been brought in an inconvenient forum.

8.6 No liability when acting in good faith

Each Scheme Shareholder agrees that none of the Target, the Bidder nor any director, officer, secretary or employee of Target or the Bidder shall be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

Annexure 3 – Deed Poll

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Paragon Care Limited

Deed Poll

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Deed Poll

Date

15 December 2021

Parties

By:

Paragon Care Limited (ABN 76 064 551 426) (**Bidder**)

Address: Level 4, 100 Albert Road,
South Melbourne, VIC 3205

Email: mleydin@leydinfreyer.com.au

Contact: Melanie Leydin (Company Secretary)

In favour of:

Each Scheme Shareholder

Recitals

A Quantum Health Group Limited (ABN 19 003 677 245) (**Target**) and the Bidder have entered into the Scheme Implementation Deed with respect to the Scheme and associated matters.

B The Target has agreed in the Scheme Implementation Deed to propose the Scheme, pursuant to which (amongst other things), subject to the satisfaction or waiver of certain conditions precedent, the Bidder will acquire all of the Scheme Shares from Scheme Shareholders for the Scheme Consideration.

C In accordance with the Scheme Implementation Deed, the Bidder enters into this document for the purpose of covenanting in favour of the Scheme Shareholders to perform the obligations attributed to it under the Scheme.

It is agreed as follows.

Operative part

1 Definitions and interpretation

1.1 Definitions

The following definitions apply in this document, unless the context requires otherwise.

Implementation has the meaning given in the Scheme Implementation Deed.

Insolvency Event has the meaning given in the Scheme Implementation Deed.

Liability means a debt, liability or obligation, whether actual, prospective, contingent or otherwise and whether or not ascertained, and whether or not owing or incurred alone, or jointly and severally, with any other person.

Scheme means the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between the Target and Scheme Shareholders, substantially in the form of Annexure 1 to this document, subject to any alterations or conditions (whether proposed by the Target, Bidder or required by the Court) which are agreed in writing by the Target and the Bidder.

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Terms defined in the Scheme have the same meaning when used in this document unless the context requires otherwise.

1.2 *Interpretation*

Clause 1.2 of the Scheme applies to this document.

2 Nature of deed poll

The Bidder acknowledges and agrees that:

(a) this document may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and

(b) under the Scheme, each Scheme Shareholder irrevocably appoints the Target and each of its directors and officers (jointly and severally) as its agent and attorney to enforce this document against the Bidder on behalf of that Scheme Shareholder.

3 Conditions

3.1 *Conditions*

This deed poll and the obligations of the Bidder under clause 4 are subject to the Scheme becoming Effective.

3.2 *Termination*

Unless the Target and the Bidder agree otherwise, the obligations of the Bidder under this document will automatically terminate and the terms of this document will be of no further force or effect if:

(a) the Scheme Implementation Deed is terminated in accordance with its terms; or

(b) the Scheme does not become Effective by the End Date.

3.3 *Consequences of termination*

If this document is terminated under clause 3.2, then in addition and without prejudice to any other available rights, powers or remedies:

(a) the Bidder is released from its obligations under this document; and

(b) each Scheme Shareholder retains the rights they have against the Bidder in respect of any breach of this document by the Bidder which occurs before this document is terminated.

4 Payment of Scheme Consideration and performance of Scheme steps

4.1 *Compliance with Scheme*

(a) Subject to clause 3, the Bidder undertakes in favour of each Scheme Shareholder to:

(i) provide, or procure the provision of, the Scheme Consideration to the Scheme Shareholders in accordance with clause 5 of the Scheme; and

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(ii) undertake all other actions, and give acknowledgement, representation and warranty (if any), attributed to it under the Scheme,

subject to and in accordance with the provisions of the Scheme.

4.2 Shares to rank equally

(a) Without limiting any provision of the Scheme or this document, the Bidder covenants in favour of each Scheme Shareholder that each Consideration Share issued to each Scheme Shareholder in accordance with the Scheme will:

(i) rank equally in all respects with all existing Bidder Shares;

(ii) have the rights set out in the Bidder Constitution; and

(iii) be fully paid and free from any Encumbrances, third party interests (whether legal or equitable) or restrictions on transfer.

5 Representations and warranties

The Bidder represents and warrants in favour of each Scheme Shareholder, in respect of itself, that:

(a) (**status**) it is a corporation validly existing and limited by shares under the Corporations Act or other applicable legislation;

(b) (**power**) it has full legal capacity and power to enter into and perform its obligations under this document;

(c) (**authorisations**) its execution, delivery and performance of this document has been properly authorised by all necessary corporate action and it has full corporate power to execute, deliver and perform this document;

(d) (**validity of this document**) this document constitutes legal, valid and binding obligations on it (subject to laws generally affecting creditors' rights and the principles of equity); and

(e) (**Insolvency Event**) it is not affected by any Insolvency Event.

6 Continuing obligations

This document is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

(a) the Bidder having each fully performed its obligations under this document; or

(b) the termination of this document under clause 3.2.

7 Notices

7.1 How to give notices

Any notice or other communication by a person contemplated by this document (including any agreement, request, demand, direction, consent, waiver or approval) must be:

(a) in writing in English, legible and signed by the person or their agent; and

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(b) sent by express or registered post (with delivery confirmation) or email, or delivered, to the recipient, attention the recipient's contact, in each case using the relevant details set out in the Parties section of this document or any new details later notified by the recipient.

If a person sends a communication contemplated by this document other than by email, they must use all reasonable endeavours to send a copy of the communication promptly by email.

7.2 Time of receipt

A communication contemplated by this document is taken to be received by a recipient:

(a) if hand-delivered, at the time of delivery to that recipient to their nominated address;

(b) if sent by express or registered post (with delivery confirmation), on the date that communication is received by the recipient at the recipient's location; and

(c) if sent by email, the earlier of:

(i) when the sender receives a read receipt from the recipient's email address; and

(ii) the time it is otherwise established that the email (including any attachment) came to the attention of the recipient.

If due to this clause 7.2 a communication would be taken to be received on a day that is not, or after 5pm on, a business day in the place of receipt, the communication is taken to have been received at 9am on the first business day in the place of receipt after that day. The place of receipt of an email is the address of the recipient contemplated by clause 7.1(b).

8 Governing law and jurisdiction

This document is governed by the laws of New South Wales. The Bidder irrevocably submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in New South Wales and Commonwealth courts having jurisdiction in that place and waives any right to object to proceedings being brought in those courts on the basis that proceedings have been brought in an inconvenient forum.

9 General

9.1 Costs and duty

(a) The Bidder must pay all stamp duties (if any) and any fines and penalties with respect to stamp duty in connection with of this document and the Scheme or the steps to be taken under each of them; and

(b) The Bidder indemnifies each Scheme Shareholder against any liability arising from any failure to comply with clause 9.1(a).

9.2 Variation

A provision of this document may not be varied by the Bidder unless:

(a) if before the First Court Date, the variation is agreed to by the Target in writing; or

(b) if on or after the First Court Date, the variation is agreed to by the Target in writing and the Court indicates that the variation would not of itself preclude approval of the Scheme,

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and in either case, the Bidder enter into a further deed poll in favour of the Scheme Shareholders giving effect to such amendment.

9.3 Further acts

The Bidder must, at its own expense, do all things (including the execution and delivery of documents) required by law or as may be necessary or desirable to give full effect to the provisions of this document and the transactions contemplated by it.

9.4 No assignment

(a) The rights of a Scheme Shareholder and the Bidder under this document are personal. They cannot be assigned, charged or otherwise dealt with, and no person shall attempt or purport to do so, without the prior written consent of the Bidder.

(b) Any purported dealing in contravention of clause 9.4(a) is invalid.

9.5 Waiver

A person waives a right under this document only by written notice that it waives that right. A waiver is limited to the specific instance to which it relates and to the specific purpose for which it is given. No other conduct of any person (including a failure to exercise, or delay in exercising, a right) operates as a waiver of a right or otherwise prevents the exercise of a right.

9.6 Remedies cumulative

The rights, powers and remedies of the Bidder and the Scheme Shareholders under this document are in addition to and do not exclude the rights, powers or remedies provided by law or equity or by any agreement.

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Execution

EXECUTED as a deed poll

Executed by **Paragon Care Limited** in accordance with section 127 of the *Corporations Act 2001* (Cth) by:

Shane Tanner	Melanie Leydin
Director signature	Director/Secretary signature
Shane Tanner	Melanie Leydin
Director full name (BLOCK LETTERS)	Director/secretary full name (BLOCK LETTERS)

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Annexure 1 – Scheme

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Quantum Health Group Limited

Each person registered in the Target Register as the holder of Scheme Shares as at the Record Date

Scheme of Arrangement

JOHNSON WINTER & SLATTERY

Level 25, 20 Bond Street
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Scheme of Arrangement

Date

Parties

1 **Quantum Health Group Limited** (ABN 19 003 677 245) (**Target**)

Address: 22 Rosebery Avenue, Rosebery, NSW 2018

Email: jwalstab@qhealthcare.com.au

Contact: John Walstab

2 **Each person registered in the Target Register as the holder of Scheme Shares as at the Record Date** (**Scheme Shareholder**)

Operative part

1 Definitions and interpretation

1.1 Definitions

The following definitions apply in this document, unless the context requires otherwise.

In this Scheme:

ASIC means the Australian Securities and Investment Commission.

ASX means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

ASX Listing Rules means the official listing rules of the ASX.

Bidder means Paragon Care Limited (ABN 76 064 551 426).

Bidder Group means the Bidder and its Related Bodies Corporate.

Bidder Constitution means any constitution adopted by the Bidder and, except to the extent overridden by such a constitution, the replaceable rules specified in section 141 of the Corporations Act.

Bidder Registry means Link Market Services Limited.

Bidder Share means a fully paid ordinary share in the Bidder.

Bidder Shareholder means a person who is recorded in the register of members of the Bidder as the holder of Bidder Shares.

Business Day has the meaning given in the ASX Listing Rules.

CHESS means the Clearing House Electronic Subregister System for electronic transfers of securities operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Consideration Share means a Bidder Share issued as Scheme Consideration.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of New South Wales or such other court of competent jurisdiction under the Corporations Act as agreed by the Target and the Bidder in writing.

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Deed Poll means the deed poll dated [●] under which the Bidder covenants in favour of the Scheme Shareholders to perform the obligations attributed to it under this Scheme.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) in relation to the Scheme.

Effective Date means the date upon which the Scheme becomes Effective.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any "security interest" as defined in sections 12(1) or 12(2) of the PPSA or any agreement to create any of them or allow them to exist.

End Date means seven months after the date of the Scheme Implementation Deed or such other date as the Target and the Bidder agree in writing.

Governmental Agency means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity in any jurisdiction. It includes ASIC, ASX (and any other securities exchange) and the Takeovers Panel and any self-regulatory organisation established under statute.

Ineligible Foreign Shareholder mean a Scheme Shareholder whose address shown in the Target Register on the Record Date is a place outside Australia and its external territories or New Zealand (or any other jurisdictions agreed by the parties in writing (each acting reasonably)), unless the Target and the Bidder (each acting reasonably) determine that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with Consideration Shares when the Scheme becomes Effective.

Implementation Date means the fifth Business Day following the Record Date or such other date agreed by the Target and Bidder in writing.

PPSA means the *Personal Property Securities Act 2009* (Cth).

Proceeds has the meaning given in clause 5.4(a)(ii).

Record Date means 7pm (Sydney time) on the fifth Business Day following the Effective Date or such other date as the Target and the Bidder agree in writing.

Registered Address means, in relation to a Scheme Shareholder, their address as shown in the Target Register as at the Record Date.

Related Body Corporate has the meaning given in the Corporations Act.

Sale Agent means a person appointed by the Target to sell the Consideration Shares that are to be issued to Ineligible Foreign Shareholders.

Scheme means this scheme of arrangement under Part 5.1 of the Corporations Act between the Target and the Scheme Shareholders, subject to any alterations or conditions (whether proposed by a party or made or required by the Court) which are agreed in writing by the Target and the Bidder.

Scheme Booklet means the explanatory statement to be approved by the Court and despatched by the Target to Target Shareholders, and which includes, amongst other things, the Scheme and an explanatory statement under section 412 of the Corporations Act.

Scheme Consideration means the consideration to be provided or procured by the Bidder to Scheme Shareholders in consideration for the transfer of the Scheme Shares held by Scheme Shareholders to the Bidder, being 0.243 Consideration Shares per Scheme Share.

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Scheme Implementation Deed means the scheme implementation deed dated 6 November 2021 between the Target and the Bidder relating to the implementation of this Scheme, as amended, substituted or replaced from time to time.

Scheme Meeting means the meeting of the Target Shareholders ordered by the Court to be convened under subsection 411(1) of the Corporations Act to consider and vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

Scheme Share means a Target Share on issue as at the Record Date.

Scheme Shareholder means a Target Shareholder as at the Record Date.

Scheme Transfer means, in relation to each Scheme Shareholder, a duly completed and executed proper instrument of transfer of their Scheme Shares to the Bidder for the purpose of section 1071B of the Corporations Act, which will be in the form of a master share transfer form of all of the Scheme Shares.

Second Court Date means the first day on which the application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is, or is to be, heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

Target Register means the register of members of the Target.

Target Registry means Boardroom Pty Ltd.

Target Share means a fully paid ordinary share in the Target.

Target Shareholder means a person who is recorded in the Target Register as the holder of the Target Shares at the time of the relevant inquiry or as at the referenced date.

1.2 Interpretation

In this Scheme, the following rules of interpretation apply unless a contrary intention appears.

(a) Any heading, index, table of contents or marginal note is for convenience only and does not affect the interpretation of this document.

(b) The singular includes the plural and vice versa.

(c) A person includes an individual, body corporate, firm, partnership, joint venture, unincorporated body and Governmental Agency.

(d) A reference to:

(i) a person includes that person's successors, permitted substitutes and permitted assigns;

(ii) a clause, schedule, attachment, annexure or exhibit is to a clause of, or a schedule, attachment, annexure or exhibit to, this document;

(iii) this document or another document includes that document as amended, varied, supplemented, novated or replaced from time to time and any schedule, attachment, annexure or exhibit to that document;

(iv) "agreement" includes an undertaking, deed, contract or other legally enforceable arrangement, whether or not in writing, and a reference to "document" includes an agreement (as so defined) in writing or any certificate, notice, instrument or other document of any kind;

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(v) legislation or a provision of legislation includes all regulations, orders or instruments issued under that legislation or provision and any modification, consolidation, amendment, re-enactment, replacement or codification of such legislation or provision;

(vi) "include", "including" and "for example", and similar expressions, when introducing a list of items, does not limit the meaning of the words to which the list relates to those items or to items of a similar kind;

(vii) dollars or $ is to Australian dollars; and

(viii) time is to the time in Sydney, New South Wales.

(e) Where a word or expression is defined or given meaning, another grammatical form has a corresponding meaning.

(f) A provision of this document must not be construed to the disadvantage of a party merely because that party was responsible for the preparation of this document or the inclusion of the provision in this document.

(g) A period of time expressed to commence:

(i) before or after a given day, or before or after the day of an act or event, is to be calculated exclusive of that day; and

(ii) on a given day, or on the day of an act or event, is to be calculated inclusive of that day.

2 Preliminary

(a) The Target is a public company limited by shares, incorporated in Australia and registered in New South Wales, Australia. The Target is admitted to the official list of the ASX and the Target Shares are officially quoted on the ASX.

(b) As at the date of the Scheme Implementation Deed, 1,128,308,291 Target Shares were on issue.

(c) The Bidder is a corporation incorporated in Australia and registered in Western Australia, Australia. The Bidder is admitted to the official list of the ASX and the Bidder Shares are officially quoted on the ASX.

(d) As at the date of the Scheme Implementation Deed:

(i) 351,400,699 Bidder Shares; and

(ii) 11,414,507 performance rights.

were on issue.

(e) The Target and the Bidder have agreed, by executing the Scheme Implementation Deed, to implement this Scheme.

(f) If this Scheme becomes Effective, each of the following will occur:

(i) all of the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, will be transferred to the Bidder;

(ii) in consideration of the transfer of the Scheme Shares to the Bidder, the Bidder will provide or procure the provision of the Scheme Consideration

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to the Scheme Shareholders in accordance with this Scheme and the Deed Poll;

(iii) the Target will enter the Bidder's name in the Target Register as the holder of all of the Scheme Shares; and

(iv) the Bidder will enter the names of each Scheme Shareholder in the Bidder Register as the holder of their Consideration Shares.

(g) This Scheme attributes actions to the Bidder but does not itself impose an obligation on it to perform those actions. The Bidder has agreed, by executing the Deed Poll, to perform the actions attributed to it under this Scheme, including the provision or procuring the provision of the Scheme Consideration to the Scheme Shareholders subject to the Scheme becoming Effective.

3 Conditions precedent

3.1 Conditions precedent

This Scheme is conditional upon and will have no force or effect until each of the following conditions precedent is satisfied:

(a) as at 8am on the Second Court Date, neither the Scheme Implementation Deed nor the Deed Poll has been terminated in accordance with its terms;

(b) all of the conditions precedent set out in clause 2.1 of the Scheme Implementation Deed (other than the condition precedent in clause 2.1(c) (*Court approval*) of the Scheme Implementation Deed) have been satisfied or waived in accordance with the terms of the Scheme Implementation Deed;

(c) the Court having approved this Scheme, with or without modification or condition, pursuant to section 411(4)(b) of the Corporations Act, and if applicable, the Target and (if required by clause 3.2 of the Scheme Implementation Deed) the Bidder having accepted in writing any modification or condition made or required by the Court under section 411(6) of the Corporations Act;

(d) such other conditions made or required by the Court under subsection 411(6) of the Corporations Act in relation to this Scheme and agreed to by the Target and the Bidder having been satisfied or waived; and

(e) the coming into effect, pursuant to section 411(10) of the Corporations Act on or before the End Date (or any later that the Target and Bidder agree in writing), of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

3.2 Conditions precedent and operation of clauses 4 and 5

The satisfaction of each condition of clause 3.1 is a condition precedent to the operation of clauses 4 and 5, which will not come into effect unless and until each of those conditions have been satisfied.

3.3 Certificate

(a) At the Court hearing on the Second Court Date, the Target, and the Bidder will each provide the Court with a certificate (or such other evidence as the Court may request) confirming (in respect of matters within its own knowledge) whether or not all of the conditions in clause 3.1(a) and 3.1(b) have been satisfied.

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(b) Where the certificates disclose that any of those conditions precedent has been satisfied or waived in accordance with the terms of the Scheme Implementation Deed, they will constitute conclusive evidence (in the absence of manifest error) of the satisfaction or waiver of the condition (as the case may be).

3.4 Lapse of Scheme

Without limiting any rights under the Scheme Implementation Deed, unless the Bidder and the Target agree otherwise in writing, the Scheme will lapse and be of no further force or effect if the Scheme Implementation Deed or the Deed Poll is terminated in accordance with its terms, or if the Effective Date does not occur by the End Date unless the Target and the Bidder otherwise agree in writing.

4 Implementation of the Scheme

4.1 Lodgement of Court orders

(a) By no later than 4pm on the first Business Day following the date on which the Court makes orders approving the Scheme (or such later date as agreed in writing by the Bidder), the Target must lodge with ASIC an office copy of the Court order approving this Scheme in accordance with section 411(10) of the Corporations Act.

(b) Subject to clause 3.4, this Scheme will become Effective on and from the Effective Date.

4.2 Transfer of Scheme Shares

Subject to this Scheme becoming Effective in accordance with clause 4.1, the following actions will occur (in the order set out below) on the Implementation Date:

(a) subject to the provision of the Scheme Consideration in the manner contemplated by clause 5, all of the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, must be transferred to the Bidder without the need for any further act by any Scheme Shareholder (other than acts performed by the Target or any of its directors or officers as attorney and agent for Scheme Shareholders under clause 7.6), by:

(i) the Target delivering to the Bidder a duly completed Scheme Transfer, executed on behalf of the Scheme Shareholders by the Target, for registration; and

(ii) the Bidder duly executing the Scheme Transfer, attending to the stamping of the Scheme Transfer (if required) and delivering it to the Target for registration;

(b) immediately following receipt of the duly executed Scheme Transfer from the Bidder under clause 4.2(a)(ii), but subject to the stamping of the Scheme Transfer (if required), the Target must enter, or must procure the entry of, the name and address of the Bidder in the Target Register as the holder of the Scheme Shares; and

(c) the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to the Bidder will, at the time of transfer of them to the Bidder, vest in the Bidder free from all Encumbrances, third party interests (whether legal or equitable) or restrictions on transfer.

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5 Scheme Consideration

5.1 Provision of Scheme Consideration

Subject to clauses 5.3, 5.4 and 5.5:

(a) on or before the Implementation Date, the Bidder must issue the Scheme Consideration to the Scheme Shareholders and procure that the name and address of each Scheme Shareholder is entered in the Bidder Register in respect of those Consideration Shares; and

(b) on or before the date that is five Business Days after the Implementation Date, the Bidder must send or procure the sending of a share certificate or holding statement (or equivalent document) to the Registered Address of each Scheme Shareholder, representing the number of Consideration Shares issued to the Scheme Shareholder pursuant to this Scheme.

5.2 Status of Consideration Shares

Subject to this Scheme becoming Effective, the Bidder must:

(a) issue the Consideration Shares required to be issued by it under this Scheme on terms such that each such Consideration Share will rank equally in all respects with each other Bidder Share on issue at the time and will have the rights set out in the Bidder Constitution;

(b) ensure that each such Consideration Share is duly and validly issued in accordance with all applicable laws and the Bidder Constitution, and is fully paid and free from any Encumbrances, third party interests (whether legal or equitable) or restrictions on transfer; and

(c) use all reasonable endeavours to ensure that such Consideration Shares are, from the Business Day following the date this Scheme becomes Effective (or such later date as ASX requires), quoted for trading on the ASX initially on a deferred settlement basis and, with effect from the Business Day following the Implementation Date, on an ordinary (T+2) settlement basis.

5.3 Joint holders

In the case of Scheme Shares held in joint names:

(a) the Consideration Shares to be issued by the Bidder under this Scheme must be issued to and registered in the Bidder Register in names of the joint holders; and

(b) any other document required to be sent under this Scheme, will be forwarded to the holder whose name appears first in the Target Register as at the Record Date.

5.4 Ineligible Foreign Shareholders

(a) The Bidder will be under no obligation to issue any Consideration Shares under this Scheme to any Ineligible Foreign Shareholder and instead:

(i) subject to clause 5.6, Bidder must, on or before the Implementation Date, issue such Consideration Shares which would otherwise be required to be issued to those Ineligible Foreign Shareholders under this Scheme to the Sale Agent;

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(ii) the Bidder must procure that as soon as reasonably practicable on or after the Implementation Date and in any event no more than 30 Business Days after the Implementation Date, the Sale Agent:

(A) in consultation with the Bidder and the Target, sells or procures the sale of all the Consideration Shares issued to the Sale Agent pursuant to clause 5.4(a)(i) on the ASX: and

(B) remits to the Target the proceeds received from the sale under clause 5.4(a)(ii)(A), after deducting any reasonable and applicable fees, brokerage, stamp duty, currency conversion costs, taxes and charges (**Proceeds**);

(iii) promptly after receiving the Proceeds in respect of the sale of all of the Consideration Shares referred to in clause 5.4(a)(i), the Target must pay, or procure the payment, to each Ineligible Foreign Shareholder, of the amount '**A**' calculated in accordance with the following formula and rounded down to the nearest cent:

A = (B ÷ C) x D

where

B = the number of Consideration Shares that would otherwise have been issued to that Ineligible Foreign Shareholder had it not been an Ineligible Foreign Shareholder and which were issued to the Sale Agent;

C = the total number of Consideration Shares which would otherwise have been issued to all Ineligible Foreign Shareholders and which were issued to the Sale Agent; and

D = the Proceeds (as defined in clause 5.4(a)(ii)).

(b) The Ineligible Foreign Shareholders acknowledge that none of the Target, the Bidder or the Sale Agent gives any assurance as to the price that will be achieved for the sale of Consideration Shares described in clause 5.4(a) and that Target, the Bidder and the Sale Agent expressly disclaim any fiduciary duty to the Ineligible Foreign Shareholders which may arise in connection with this clause 5.4.

(c) The Target must make, or procure the making of, payments to Ineligible Foreign Shareholders under clause 5.4(a) by either (in the absolute discretion of the Target):

(i) where an Ineligible Foreign Shareholder has, before the Record Date, made a valid election in accordance with the requirements of the Target Registry to receive dividend payments from the Target by electronic funds transfer to a bank account nominated by that Ineligible Foreign Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election;

(ii) paying, or procuring the payment of, the relevant amount in Australian currency by electronic means to a bank account nominated by the relevant Ineligible Foreign Shareholder by an appropriate authority from that Ineligible Foreign Shareholder to the Target; or

(iii) dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian currency to the Ineligible Foreign Shareholder by prepaid post to their Registered Address, such cheque being drawn in the name of that

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Ineligible Foreign Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 5.3).

(d) If the Target receives professional advice that any withholding or other tax is required by law or by a Government Agency to be withheld from a payment to an Ineligible Foreign Shareholder, the Target is entitled to withhold the relevant amount before making the payment to the Ineligible Foreign Shareholder (and payment of the reduced amount shall be taken to be full payment of the relevant amount for the purposes of this Scheme, including clause 5.4(a)(iii)). The Target must pay any amount so withheld to the relevant taxation authorities within the time permitted by law, and, if requested in writing by the relevant Ineligible Foreign Shareholder, provide a receipt or other appropriate evidence of such payment (or procure the provision of such receipt or other evidence) to the relevant Ineligible Foreign Shareholder.

(e) Each Ineligible Foreign Shareholder appoints the Target as its agent to receive on its behalf any financial services guide (or similar or equivalent document) or other notices (including any updates of those documents) that the Sale Agent is required to provide to those Ineligible Foreign Shareholders under the Corporations Act or any other applicable law.

(f) Payment of the amount calculated in accordance with clause 5.4(a) to an Ineligible Foreign Shareholder in accordance with this clause 5.4 satisfies in full the Ineligible Foreign Shareholder's right to Scheme Consideration.

(g) Where the issue of Consideration Shares to which a Scheme Shareholder would otherwise be entitled under this Scheme would result in a breach of law:

(i) the Bidder will issue the maximum possible number of Consideration Shares to the Scheme Shareholder without giving rise to such a breach; and

(ii) any further Consideration Shares to which that Scheme Shareholder is entitled, but the issue of which to the Scheme Shareholder would give rise to such a breach, will instead be issued to the Sale Agent and dealt with under the preceding provisions in this clause 5.4, as if a reference to Ineligible Foreign Shareholders also included that Scheme Shareholder and references to that person's Consideration Schemes in that clause were limited to the Consideration Shares issued to the Sale Agent under this clause.

(h) To the extent that a cheque properly despatched by or on behalf of the Target pursuant to clause 5.4(c)(iii) is returned to the Target (or its agents) as undelivered or the cheque is not presented by a Scheme Shareholder earlier than six months after the Implementation Date (**Unclaimed Consideration**):

(i) the Target may cancel the cheque and credit the amount to a separate bank account of the Target until the Unclaimed Consideration is claimed or otherwise dealt with in accordance with any applicable unclaimed moneys legislation; and

(ii) subject to the Target complying with its obligations under clause 5.4(h)(i) the Target is discharged from liability to any Scheme Shareholder in respect of the Unclaimed Consideration.

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(i) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 7 of the *Unclaimed Money Act 1995* (NSW)).

5.5 Fractional entitlements

Where the calculation of the Scheme Consideration to be provided to a particular Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a Consideration Share, the fractional entitlement will be rounded down to the nearest whole number of Consideration Shares.

5.6 Orders of a court or Governmental Agency

If written notice is given to the Target (or the Target Registry) or the Bidder (or the Bidder Registry) of an order or direction made by a court of competent jurisdiction or by another Governmental Agency:

(a) which requires payment to a third party (either through payment of a sum or the issuance of a security) in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable or required to be issued to that Scheme Shareholder by the Bidder in accordance with this clause 5, then the Target or the Bidder (as applicable) shall be entitled to procure that provision of that consideration is made in accordance with that order or direction; or

(b) which would prevent the Bidder from providing consideration to any particular Scheme Shareholder in accordance with this clause 5, or the issuance of such consideration is otherwise prohibited by applicable law, the Target or the Bidder (as applicable) shall be entitled:

(i) in the case of an Ineligible Foreign Shareholder, to retain an amount, in Australian dollars, equal to the relevant Ineligible Foreign Shareholder's share of the Proceeds; or

(ii) not to issue, or to issue to a trustee or nominees such number of Consideration Shares as that Scheme Shareholder would otherwise be entitled to under clause 5.1

until such time as provision of the Scheme Consideration in accordance with this clause 5 is permitted by that (or another) order or direction or otherwise by law.

6 Dealings in Target Shares

6.1 Determination of Scheme Shareholders

(a) For the purpose of establishing who is a Scheme Shareholder, dealings in the Target Shares or other alterations to the Target Register will only be recognised if:

(i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Target Register as the holder of the relevant Target Shares by the Record Date; and

(ii) in all other cases, registrable transfers or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at the place where the Target Register is kept by 5pm on the Record Date,

and the Target will not accept for registration or recognise for any purpose (except a transfer to the Bidder under this Scheme and any subsequent transfer by the Bidder

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or its successors in title) any transfer or transmission application or other such request in respect of the Target Shares received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

(b) The Target must register any registrable transfers or transmission applications of the type referred to in clause 6.1(a)(ii) by the Record Date, provided that, for the avoidance of doubt, nothing in this clause 6.1(b) requires the Target to register a transfer that would result in a Scheme Shareholder holding a parcel of Target Shares that is less than a 'marketable parcel' (as that term is defined in the ASX Listing Rules).

6.2 Target Register

(a) The Target must, until the Scheme Consideration has been provided to Scheme Shareholders in accordance with this Scheme and the name and address of the Bidder has been entered in the Target Register as the holder of all Scheme Shares, maintain or procure the maintenance of the Target Register in accordance with the provisions of this clause 6 and the Target Register in this form will solely determine entitlements to Scheme Consideration.

(b) As from the Record Date (other than for the Bidder after the Implementation Date), each entry current at that time in the Target Register in relation to the Scheme Shares will cease to be of any effect other than as evidence of the entitlement of Scheme Shareholders to the Scheme Consideration in accordance with this Scheme in respect of those Scheme Shares.

6.3 Certificates and holding statements

All certificates and statements of holding for Scheme Shares held by Scheme Shareholders shall, following the Record Date, cease to have any effect as documents of title in respect of such Scheme Shares.

6.4 Provision of information

(a) As soon as practicable after the Record Date and in any event at least three Business Days before the Implementation Date, the Target must, or must procure, details of the names, Registered Addresses and registered holdings of Scheme Shares of each Scheme Shareholder as at the Record Date are given to the Bidder in the form the Bidder reasonably requires.

(b) Each Scheme Shareholder agrees that this information may be disclosed to the Bidder, the Bidder Registry and the Bidder's advisers and other service providers to the extent necessary to effect the Scheme.

6.5 No disposals after Record Date

If the Scheme becomes Effective, each Scheme Shareholder, and any person claiming through that Scheme Shareholder, must not in any way, deal with or dispose of or purport or agree to deal with or dispose of, any Scheme Shares or any interest in them except as set out in the Scheme, after the Record Date and any attempt to do so will be void and will have no legal effect whatsoever.

6.6 Quotation of Target Shares

(a) The Target must apply for suspension of trading in the Target Shares on the ASX with effect from the close of trading on ASX on the Effective Date.

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(b) At a date on or after the Implementation Date to be determined by the Bidder, the Target will apply to ASX:

(i) for termination of the official quotation of the Target Shares on ASX; and

(ii) to have itself removed from the official list of ASX.

7 General Scheme provisions

7.1 Binding effect of Scheme

Each Scheme Shareholder acknowledges that this Scheme binds the Target and all of the Scheme Shareholders (including those who do not attend the members' meeting of the Target to approve the Scheme or do not vote at that meeting or who vote against the Scheme at the meeting) and, to the extent of any inconsistency and as permitted by law, overrides the constitution of the Target.

7.2 Agreement by Scheme Shareholders

Each Scheme Shareholder (and, in respect of clause 7.2(c) only, the Sale Agent on behalf of all Ineligible Foreign Shareholders) irrevocably:

(a) agrees to transfer its Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares to the Bidder in accordance with this Scheme;

(b) agrees to any variation, cancellation or modification (if any) of the rights attached to its Scheme Shares constituted by or resulting from this Scheme;

(c) agrees to become a member of the Bidder and to be bound by the terms of the Bidder Constitution;

(d) who holds their Scheme Shares in a CHESS Holding agrees to the conversion of those Scheme Shares to an Issuer Sponsored Holding and irrevocably authorises the Target to do anything necessary or expedient (whether required by the Settlement Rules or otherwise) to effect or facilitate such conversion; and

(e) acknowledges and agrees that this Scheme binds the Target and all Scheme Shareholders (including those who do not attend the Scheme Meeting and those who do not vote, or vote against this Scheme, at the Scheme Meeting).

7.3 Warranties by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to the Target and the Bidder, and to have appointed and authorised the Target as its attorney and agent to warrant to the Bidder on the Implementation Date, that:

(a) all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, at the date of transfer of them to the Bidder pursuant to the Scheme, be fully paid and free from all Encumbrances, third party interests (whether legal or equitable) or restrictions on transfer of any kind; and

(b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) to the Bidder under the Scheme. The Target undertakes that it will provide such warranty to the Bidder and attorney of each Scheme Shareholder; and

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(c) they have no existing right to be issued any Target Shares or other securities in the Target. The Target undertakes that it will provide such warranty to the Bidder as agent and attorney of each Scheme Shareholder.

7.4 Title to and rights in Scheme Shares

To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to the Bidder will, at the time of transfer of them to the Bidder vest in the Bidder free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise and free from any restrictions on transfer of any kind.

7.5 Pending registration of transfers

Immediately upon the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clause 5.1(a), and until the Target registers the Bidder as the holder of all Scheme Shares in the Target Register:

(a) the Bidder will be beneficially entitled to the Scheme Shares transferred to it under this Scheme;

(b) each Scheme Shareholder is deemed to have irrevocably appointed the Bidder as attorney and agent (and directed the Bidder in each capacity) to appoint any director, officer, secretary or agent nominated by the Bidder as its sole proxy and, where appropriate, its corporate representative, to attend the meetings of holders of Target Shares, exercise the votes attached to the Scheme Shares registered in their name and sign any resolution of holders of Target Shares (and each Scheme Shareholder acknowledges and agrees that as a result of each appointment they must not themselves attend or vote at any meetings or sign any resolution whether in person or by proxy or corporate representative);

(c) each Scheme Shareholder must take all other action in the capacity of a registered holder of Scheme Shares as the Bidder reasonably directs; and

(d) each Scheme Shareholder acknowledges and agrees that in exercising the powers referred to in this clause 7.4, the Bidder and any director, officer, secretary or agent nominated by the Bidder under clause 7.4 may act in the best interests of the Bidder as the intended registered holder of Scheme Shares.

7.6 Authority to Target

(a) Each Scheme Shareholder, without the need for any further act, irrevocably appoints the Target and each of its directors and officers (jointly, severally or jointly and severally) as its agent and attorney for the purpose of:

(i) executing any document or doing any other act necessary, expedient or desirable to give effect to the terms of this Scheme and the transactions contemplated by it including (without limitation) the execution and provision of the Scheme Transfer;

(ii) executing and delivering any deed or document required by the Target or the Bidder, that causes each Scheme Shareholder to become a shareholder of Bidder and to be bound by the Bidder Constitution; and

(iii) enforcing the Deed Poll against the Bidder,

and the Target accepts each such appointment. The Target as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers

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under this clause 7.6 to all or any of its directors and officers (jointly, severally or jointly and severally).

(b) The Target undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against the Bidder on behalf of and as agent and attorney for each Scheme Shareholder.

7.7 Instructions and elections

If not prohibited by law (and including where permitted or facilitated by relief granted by a Government Agency), all instructions, notifications or elections by a Scheme Shareholder to the Target that are binding or deemed binding between the Scheme Shareholder and the Target relating to the Target or the Scheme Shares, including instructions, notifications or elections relating to:

(a) whether dividends are to be paid by cheque or into a specific bank account;

(b) payments of dividends on Scheme Shares; and

(c) notices or other communications from the Target (including by email),

will be deemed from the Implementation Date (except to the extent determined otherwise by the Bidder in its sole discretion), by reason of this Scheme, to be made by the Scheme Shareholder to the Bidder and to be a binding instruction, notification or election to, and accepted by, the Bidder in respect of the Consideration Shares issued to that Scheme Shareholder until that instruction, notification or election is revoked or amended in writing addressed to the Bidder at the Bidder Registry.

7.8 Amendments to the Scheme

If the Court proposes to approve the Scheme subject to any alterations or conditions:

(a) the Target may consent on behalf of all persons concerned, by its counsel or solicitors, to those alterations or conditions to which (if required by clause 3.2 of the Scheme Implementation Deed) the Bidder has provided its prior written consent; and

(b) each Scheme Shareholder agrees to any such alterations or conditions which the Target has consented to.

8 General

8.1 Stamp duty

The Bidder must:

(a) pay all stamp duty (if any) and any related fines and penalties payable in connection with the transfer of the Scheme Shares under this Scheme; and

(b) indemnify each Scheme Shareholder against any liability incurred by the Scheme Shareholder arising from the Bidder's failure to comply with clause 8.1.

8.2 Indemnities

Unless this document provides otherwise:

(a) each indemnity in this document is a continuing obligation, separate and independent from the other obligations of the parties, and survives termination, completion or expiration of this document;

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(b) it is not necessary for a person to incur expense or make any payment before enforcing a right of indemnity conferred by this document; and

(c) the making of a claim by a person under an indemnity contained in this document in respect of a particular event does not preclude that person from subsequently making further claims under that indemnity in respect of the same event.

8.3 Further assurance

Each Scheme Shareholder and the Target will execute all documents and do all acts and things as may be necessary or desirable to give full effect to the Scheme and the transactions contemplated by it.

8.4 Notices

(a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to the Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at the registered office of the Target.

(b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a Target Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

8.5 Governing law and jurisdiction

This document is governed by the laws of New South Wales. Each party irrevocably submits to the non-exclusive jurisdiction of the courts of New South Wales, and Commonwealth courts having jurisdiction in that place and waives any right to object to proceedings being brought in those courts on the basis that proceedings have been brought in an inconvenient forum.

8.6 No liability when acting in good faith

Each Scheme Shareholder agrees that none of the Target, the Bidder nor any director, officer, secretary or employee of Target or the Bidder shall be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

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Annexure 4– Notice of Scheme Meeting

QUANTUM HEALTH GROUP LIMITED
(ACN 003 677 245)
(QUANTUM)

NOTICE OF COURT-ORDERED MEETING OF QUANTUM SHAREHOLDERS

Notice is hereby given that, by order of the Supreme Court of New South Wales (**Court**) made on 17 December 2021 under section 411(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**), the Court has directed that a meeting of the Quantum Shareholders be held virtually via the following link web.lumiagm.com/362841964 on Thursday, 27 January 2022 at 3:00pm (Sydney time) (**Scheme Meeting**).

The Court has directed that Drew Townsend, or, failing him, Michael Peters, act as Chair of the Scheme Meeting and has directed the Chair to report the result of that meeting to the Court.

PURPOSE OF THE SCHEME MEETING

The purpose of the Scheme Meeting is to consider and, if thought fit, to agree (with or without any modification or conditions approved by the Court) to a scheme of arrangement proposed to be made between Quantum and the Scheme Shareholders of their Scheme Shares as at the Scheme Record Date pursuant to Part 5.1 of the Corporations Act (**Scheme**).

SCHEME RESOLUTION

The Quantum Shareholders will be asked to consider and, if thought fit, pass the following resolution:

> *"That pursuant to and in accordance with section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Quantum Health Group Limited and the Scheme Shareholders, as more particularly described in the Scheme Booklet accompanying the notice convening this meeting, is agreed to (with or without any modifications or conditions ordered by the Court) and, subject to approval of the Scheme by the Court, the Quantum Board is authorised to agree to, and implement the Scheme with any such modifications or conditions as are thought fit by the Court."*

BY ORDER OF THE COURT AND THE BOARD

John Walstab
Managing Director and Company Secretary
17 December 2021

EXPLANATORY NOTES

To enable you to make an informed decision on the Scheme Resolution, a copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet of which this Notice of Scheme Meeting forms part. Terms used in this Notice of Scheme Meeting have the same meaning as set out in the Glossary in Section 10 of the Scheme Booklet.

See the Scheme Meeting Online User Guide for a step by step process on how to log on, ask questions and vote at the virtual meeting.

Details about your entitlement to vote, how to vote and how to appoint a proxy, attorney or a corporate representative are set out at page 9 of the Scheme Booklet.

APPOINTMENT OF CHAIR AS PROXY

If the Chair of the Scheme Meeting is appointed as your proxy (or is appointed your proxy by default), he can be directed how to vote by ticking the relevant box next to the Scheme Resolution (i.e. 'for', 'against' or 'abstain'). The Chair of the Scheme Meeting intends to vote all available proxies in favour of the Scheme Resolution.

Any directed proxies that are not voted on a poll at the Scheme Meeting by a Quantum Shareholder's appointed proxy will automatically default to the Chairman of the meeting, who is required to vote proxies as directed on a poll.

COURT APPROVAL

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by an order of the Court. If the resolution put to this Scheme Meeting is passed by the Requisite Majorities and the other conditions are satisfied or waived (if applicable), Quantum intends to apply to the Court on or around Tuesday, 1 February 2022 for approval of the Scheme.

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Annexure 5 – Scheme Meeting Online User Guide

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SCHEME MEETING ONLINE USER GUIDE

Attending the Scheme Meeting virtually

If you choose to participate online, you will be able to view a live webcast of the meeting, ask questions and submit your votes in real time.

To access the meeting:

Visit web.lumiagm.com/362841964 on your computer, tablet or smartphone. You will need the latest version of Chrome, Safari, Edge or Firefox. Please ensure your browser is compatible.

Meeting ID: 362-841-964

To login you must have your Voting Access Code (VAC) and Postcode or Country Code

The website will be open and available for log in from 2:00pm (AEDT), 27th January 2022

Using the Lumi Meeting platform:

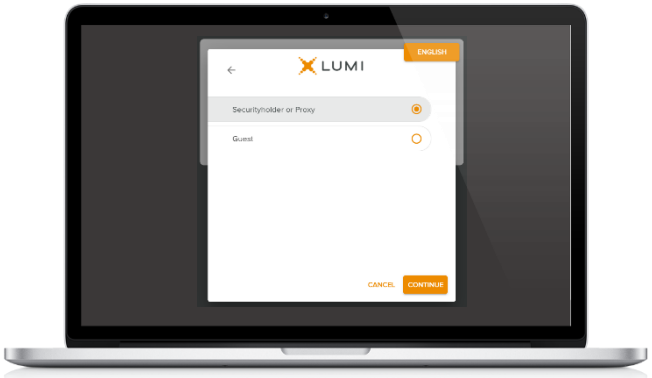
ACCESS

The 1st page of the platform will ask in what capacity you are joining the meeting.

Shareholders or appointed proxies should select

"Shareholder or Proxyholder"

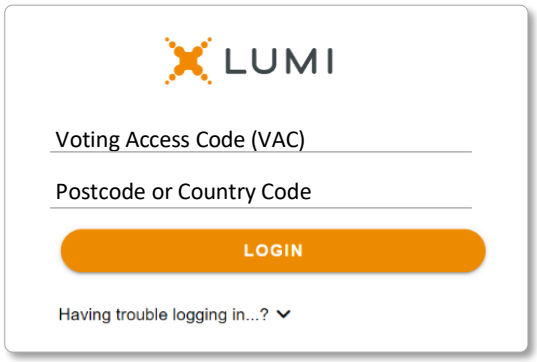
Guests should select "Guest"



CREDENTIALS

Shareholders/Proxys

Your username is your Voting Access Code and your password is your Postcode or Country Code, or, for non-Australian residents, your 3-letter country code. Proxy holders should obtain their log in credentials from the registrar by calling 1300 737 760 (Australia) or +61 2 9290 9600 (outside Australia)



Guests

Please enter your name and email address to be admitted into the meeting.

Please note, guests will not be able to ask questions or vote at the meeting.

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NAVIGATION

Once successfully authenticated, the home page will appear. You can view meeting instructions, ask questions and open the virtual meeting.

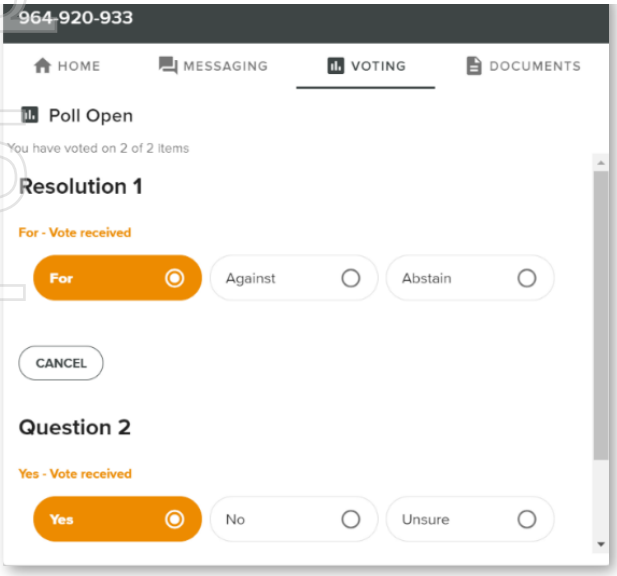
A link to the virtual meeting will be provided on the home page. Click the link to open the meeting. The meeting will open in a separate browser tab on your device.

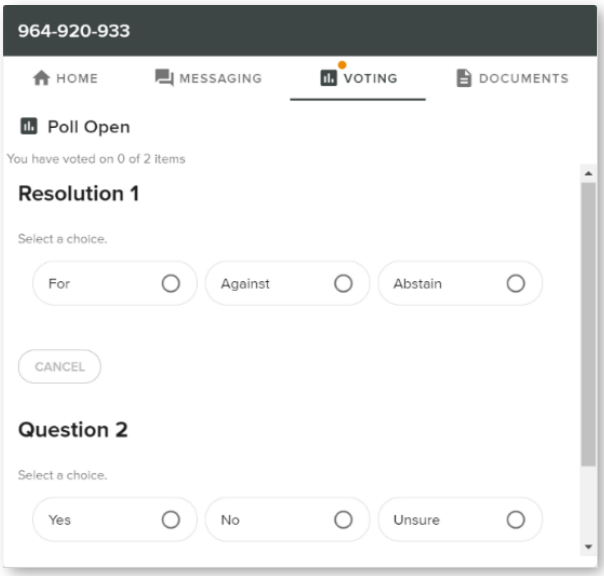
To Vote and ask Questions during the meeting, navigate back to the browser tab with the LUMI meeting platform open.

VOTING

The Chair will open voting on all resolutions at the start of the meeting. Once voting has opened, the voting tab will appear on the navigation bar.

Selecting this tab will open a list of all resolutions and their voting options.





To vote, simply select your voting direction from the options displayed on screen. Your selection will change colour and a confirmation message will appear.

To change your vote, simply select another option. If you wish to cancel your vote, please press cancel.

There is no need to press a submit or send button. Your vote is automatically counted.

Voting can be performed at any time during the meeting until the Chair closes the poll.

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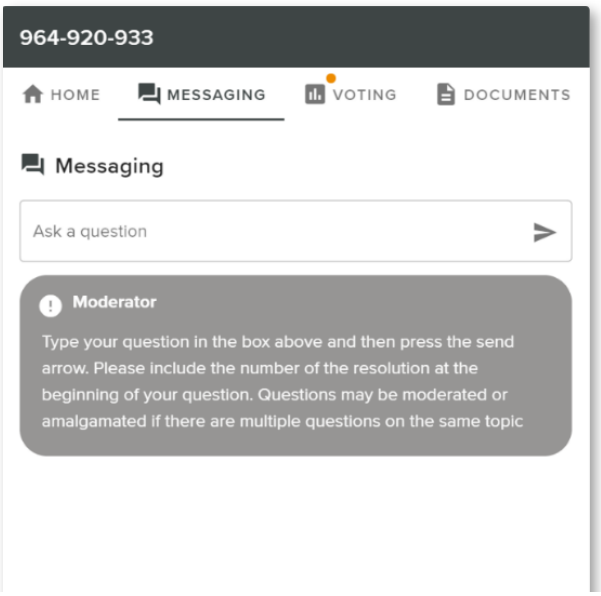
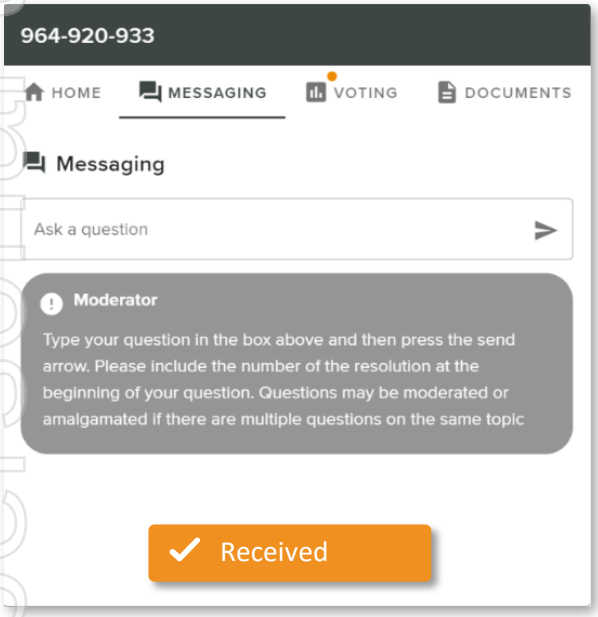
QUESTIONS

Any shareholder or appointed proxy is eligible to ask questions.

If you would like to ask a question. Select the messaging tab.

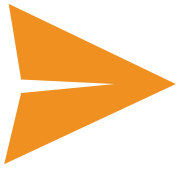
Messages can be submitted at any time from the start of the meeting, up until the Chair closes the Q&A session.





Select the "Ask a Question" box and type in your message.

Once you are happy with your message, select the send icon.



Questions sent via the Lumi platform may be moderated before being sent to the Chair. This is to avoid repetition and remove any inappropriate language.

Meeting ID: 362-841-964

To login you must have your Voting Access Code (VAC) and Postcode or Country Code

The website will be open and available for log in from 2:00pm (AEDT), 27th January 2022

web.lumiagm.com

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LUMI

Country Codes

For overseas shareholders, select your country code from the list below and enter it into the password field.

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ABW	Aruba
AFG	Afghanistan
AGO	Angola
AIA	Anguilla
ALA	Aland Islands
ALB	Albania
AND	Andorra
ANT	Netherlands Antilles
ARE	United Arab Emirates
ARG	Argentina
ARM	Armenia
ASM	American Samoa
ATA	Antarctica
ATF	French Southern
ATG	Antigua & Barbuda
AUS	Australia
AUT	Austria
AZE	Azerbaijan
BDI	Burundi
BEL	Belgium
BEN	Benin
BFA	Burkina Faso
BGD	Bangladesh
BGR	Bulgaria
BHR	Bahrain
BHS	Bahamas
BIH	Bosnia & Herzegovina
BLM	St Barthelemy
BLR	Belarus
BLZ	Belize
BMU	Bermuda
BOL	Bolivia
BRA	Brazil
BRB	Barbados
BRN	Brunei Darussalam
BTN	Bhutan
BUR	Burma
BVT	Bouvet Island
BWA	Botswana
CAF	Central African Republic
CAN	Canada
CCK	Cocos (Keeling) Islands
CHE	Switzerland
CHL	Chile
CHN	China
CIV	Cote D'ivoire
CMR	Cameroon
COD	Democratic Republic of Congo
COK	Cook Islands
COL	Colombia
COM	Comoros
CPV	Cape Verde
CRI	Costa Rica
CUB	Cuba
CYM	Cayman Islands
CYP	Cyprus
CXR	Christmas Island
CZE	Czech Republic
DEU	Germany
DJI	Djibouti
DMA	Dominica
DNK	Denmark
DOM	Dominican Republic
DZA	Algeria
ECU	Ecuador
EGY	Egypt
ERI	Eritrea
ESH	Western Sahara
ESP	Spain
EST	Estonia
ETH	Ethiopia
FIN	Finland
FJI	Fiji
FLK	Falkland Islands (Malvinas)
FRA	France
FRO	Faroe Islands
FSM	Micronesia
GAB	Gabon
GBR	United Kingdom
GEO	Georgia
GGY	Guernsey
GHA	Ghana
GIB	Gibraltar
GIN	Guinea
GLP	Guadeloupe
GMB	Gambia
GNB	Guinea-Bissau
GNQ	Equatorial Guinea
GRC	Greece
GRD	Grenada
GRL	Greenland
GTM	Guatemala
GUF	French Guiana
GUM	Guam
GUY	Guyana
HKG	Hong Kong
HMD	Heard & Mcdonald Islands
HND	Honduras
HRV	Croatia
HTI	Haiti
HUN	Hungary
IDN	Indonesia
IMN	Isle Of Man
IND	India
IOT	British Indian Ocean Territory
IRL	Ireland
IRN	Iran Islamic Republic of
IRQ	Iraq
ISM	Isle of Man
ISL	Iceland
ISR	Israel
ITA	Italy
JAM	Jamaica
JEY	Jersey
JOR	Jordan
JPN	Japan
KAZ	Kazakhstan
KEN	Kenya
KGZ	Kyrgyzstan
KHM	Cambodia
KIR	Kiribati
KNA	St Kitts And Nevis
KOR	Korea Republic of
KWT	Kuwait
LAO	Laos
LBN	Lebanon
LBR	Liberia
LBY	Libyan Arab Jamahiriya
LCA	St Lucia
LIE	Liechtenstein
LKA	Sri Lanka
LSO	Lesotho
LTU	Lithuania
LUX	Luxembourg
LVA	Latvia
MAC	Macao
MAF	St Martin
MAR	Morocco
MCO	Monaco
MDA	Republic Of Moldova
MDG	Madagascar
MDV	Maldives
MEX	Mexico
MHL	Marshall Islands
MKD	Macedonia Former Yugoslav Rep
MLI	Mali
MLT	Mauritania
MMR	Myanmar
MNE	Montenegro
MNG	Mongolia
MNP	Northern Mariana Islands
MOZ	Mozambique
MRT	Mauritania
MSR	Montserrat
MTQ	Martinique
MUS	Mauritius
MWI	Malawi
MYS	Malaysia
MYT	Mayotte
NAM	Namibia
NCL	New Caledonia
NER	Niger
NFK	Norfolk Island
NGA	Nigeria
NIC	Nicaragua
NIU	Niue
NLD	Netherlands
NOR	Norway Montenegro
NPL	Nepal
NRU	Nauru
NZL	New Zealand
OMN	Oman
PAK	Pakistan
PAN	Panama
PCN	Pitcairn Islands
PER	Peru
PHL	Philippines
PLW	Palau
PNG	Papua New Guinea
POL	Poland
PRI	Puerto Rico
PRK	Korea Dem Peoples Republic of
PRT	Portugal
PRY	Paraguay
PSE	Palestinian Territory Occupied
PYF	French Polynesia
QAT	Qatar
REU	Reunion
ROU	Romania
RUS	Russian Federation
RWA	Rwanda
SAU	Saudi Arabia Kingdom Of
SDN	Sudan
SEN	Senegal
SGP	Singapore
SGS	Sth Georgia & Sth Sandwich Isl
SHN	St Helena
SJM	Svalbard & Jan Mayen
SLB	Solomon Islands
SCG	Serbia & Outlying
SLE	Sierra Leone
SLV	El Salvador
SMR	San Marino
SOM	Somalia
SPM	St Pierre And Miquelon
SRB	Serbia
STP	Sao Tome And Principe
SUR	Suriname
SVK	Slovakia
SVN	Slovenia
SWE	Sweden
SWZ	Swaziland
SYC	Seychelles
SYR	Syrian Arab Republic
TCA	Turks & Caicos Islands
TCD	Chad
TGO	Togo
THA	Thailand
TJK	Tajikistan
TKL	Tokelau
TKM	Turkmenistan
TLS	Timor-Leste
TMP	East Timor
TON	Tonga
TTO	Trinidad & Tobago
TUN	Tunisia
TUR	Turkey
TUV	Tuvalu
TWN	Taiwan
TZA	Tanzania United Republic of
UGA	Uganda
UKR	Ukraine
UMI	United States Minor
URY	Uruguay
USA	United States of America
UZB	Uzbekistan
VNM	Vietnam
VUT	Vanuatu
WLF	Wallis & Futuna
WSM	Samoa
YEM	Yemen
YMD	Yemen Democratic
YUG	Yugoslavia Socialist Fed Rep
ZAF	South Africa
ZAR	Zaire
ZMB	Zambia
ZWE	Zimbabwe

Corporate Directory

Company

Quantum Heath Group Limited
(ACN 003 677 245)

Directors

Drew Townsend
John Walstab
Alan McCarthy
Stephanie Wen

Company Secretary

John Walstab

Registered Office

22 Rosebery Avenue
Rosebery NSW 2018

Legal Adviser

Johnson Winter & Slattery
Level 25, 20 Bond Street
Sydney NSW 2000

Independent Expert

Leadenhall Corporate Advisory Pty Ltd
Level 6, 111 Elizabeth Street
Sydney NSW 2000

Share Registry

Boardroom Pty Limited
Level 12, 225 George Street
Sydney NSW 2000

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