

**QUANTUM ENERGY LIMITED ABN 19 003 677 245**

**NOTICE OF GENERAL MEETING TO BE HELD ON 30 MAY 2017  
AND**

**EXPLANATORY STATEMENT FOR THE NOTICE OF GENERAL MEETING  
AND**

**INDEPENDENT EXPERT'S REPORT**

**DATE OF MEETING: 30 MAY 2017**

**TIME OF MEETING: 2.00 PM SYDNEY TIME**

**LOCATION: 56 - 60 BOURKE ROAD, ALEXANDRIA, NSW, 2015**

**THE INDEPENDENT EXPERT'S REPORT PREPARED BY LEADENHALL  
CORPORATE ADVISORY PTY LTD ACN 114 534 619 AFSL 293586 AND SET  
OUT IN SECTION E OF THIS MEETING DOCUMENTATION CONCLUDES THAT  
THE ADVANTAGES OF THE SHARE ACQUISITION OUTWEIGH THE  
DISADVANTAGES OF THE SHARE ACQUISITION AND THAT THE SHARE  
ACQUISITION IS FAIR AND REASONABLE TO THE NON-ASSOCIATED  
SHAREHOLDERS.**

**THE NOTICE OF GENERAL MEETING, EXPLANATORY STATEMENT AND  
INDEPENDENT EXPERT'S REPORT ARE IMPORTANT DOCUMENTS AND  
REQUIRE YOUR IMMEDIATE ATTENTION. THE DOCUMENTS SHOULD BE  
READ IN THEIR ENTIRETY. IF YOU ARE IN DOUBT ABOUT WHAT TO DO YOU  
SHOULD CONSULT YOUR PROFESSIONAL ADVISER WITHOUT DELAY**

**IMPORTANT DATES**

**LATEST TIME FOR RECEIPT OF PROXIES: 2.00PM SYDNEY TIME 28 MAY 2017**

**TIME FOR DETERMINING ELIGIBILITY TO VOTE AT THE MEETING: 7.00PM SYDNEY TIME 28 MAY 2017**

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## **SECTION A – CHAIRMAN'S LETTER**

24 April 2017

Dear Shareholder,

I refer to the Company's Announcement on 7 February 2017, in which the Company indicated the Board would be convening a General Meeting of Shareholders for the purposes of submitting to Shareholders a resolution to approve under section 611 item 7 of the Corporations Act 2001 a proposed Share Acquisition by Mr John Walstab.

The General Meeting of Shareholders has been convened for 2.00 pm Sydney time on 30 May 2017 at the Company's Boardroom, 56-60 Bourke Road, Alexandria, NSW, 2015.

### **Notice of General Meeting and Accompanying Documents**

Attached to this letter is documentation in relation to the General Meeting, which includes the Notice of General Meeting (Section C); Explanatory Statement (Section D); and an Independent Expert's Report (Section E).

You will note from the Notice of General Meeting that there is one Resolution being submitted for Shareholder approval. The Resolution addresses the proposed Share Acquisition by Mr John Walstab of a parcel of shares which would result in the percentage of voting shares held by Mr Walstab increasing to 54.08%. The Share Acquisition, in order to be permitted to proceed under the Corporations Act, 2001 is being submitted for Shareholder approval in accordance with section 611 item 7 of the Corporations Act 2001.

The Notice of General Meeting sets out the terms of Resolution 1 and the Explanatory Statement explains in greater detail the background to Resolution 1.

Leadenhall Corporate Advisory Pty Ltd ACN 114 534 619 AFSL 293586 has been appointed as the Independent Expert to report on the fairness and reasonableness of the proposed Share Acquisition to the Non-associated Shareholders of the Company. The Independent Expert has concluded that the advantages of the Share Acquisition outweigh the disadvantages of the Share Acquisition and that the Share Acquisition is fair and reasonable to the Non-associated Shareholders. The Independent Expert's Report is contained in Section E of the Accompanying Documents.

As each of Mr Walstab and myself have an interest in the Share Acquisition each of us has abstained from making a Recommendation to Shareholders in relation to Resolution 1. For the reasons set out in the Explanatory Statement and having regard to the analysis and conclusions set out in the Independent Expert's Report, Mr Mackenzie, an independent Director on the Board recommends that Shareholders vote in favour of Resolution 1.

On behalf of the Company, I strongly encourage you to read the enclosed Notice of General Meeting and Accompanying Documents carefully and in their entirety and to attend the General Meeting at 2.00pm Sydney time on 30 May 2017 and vote on Resolution 1. If you are unable to attend the General Meeting, you should complete the enclosed Proxy Form and return it (see Proxy Form for details) as soon as possible and in any case so that it is received no later than 2:00pm Sydney time on 28 May 2017.

I look forward to meeting with you at the General Meeting on 30 May 2017.

Yours faithfully,

A handwritten signature in dark ink, appearing to be 'DT' with a stylized flourish.

Mr Drew Townsend

Chairman

Quantum Energy Limited

## **SECTION B – WHAT DO YOU NEED TO DO?**

You should take the following steps in considering Resolution 1 set out in the Notice of General Meeting:

Step 1: Carefully read the Notice of General Meeting and each of the Accompanying Documents in their entirety;

Step 2 : Vote on Resolution 1 –

You can either vote in person or by proxy:

- to vote in person: you should attend the General Meeting at 56-60 Bourke Road Alexandria, NSW, 2015 at 2.00pm Sydney time on 30 May 2017;
- to appoint a proxy to vote on your behalf: complete the enclosed Proxy Form and return it so that it is received no later than 2.00pm Sydney time on 28 May 2017. You may return the proxy form by:

\* Post, using the enclosed reply paid envelope, or by posting to the Company's Share Registry, Boardroom Pty Limited:

- Level 12, 225 George Street, Sydney, NSW, 2000

or

- GPO Box 3993, Sydney, NSW, 2001

Or

\*By facsimile to Boardroom Pty Limited on facsimile number: +61 2 9290 9655

## **SECTION C**

### **NOTICE OF GENERAL MEETING**

#### **QUANTUM ENERGY LIMITED**

**ABN 19 003 677 245**

Notice is hereby given that a General Meeting of the members of Quantum Energy Limited (**Company**) will be held at Quantum Boardroom, 56-60 Bourke Road, Alexandria NSW, 2015 on 30 May 2017 at 2.00pm Sydney time.

#### **AGENDA**

**ADDITIONAL INFORMATION CONCERNING THE RESOLUTION BELOW IS CONTAINED IN THE EXPLANATORY STATEMENT SET OUT IN SECTION D AND THE INDEPENDENT EXPERT'S REPORT SET OUT IN SECTION E**

#### **BUSINESS**

##### **1. APPROVAL OF SHARE ACQUISITION**

To consider and, if thought fit, to pass the following ordinary Resolution:

“That, in accordance with section 611, item 7 of the Corporations Act, 2001 and for all other purposes, approval be given for John Andrew Walstab to acquire a total of 465,693,959 Shares in Quantum Energy Limited from Crisp Holdings Pty Limited at 0.816 cents per share and otherwise on the terms and conditions set out in the Explanatory Statement (Section D)”.

NOTE: Shareholders should carefully consider the Independent Expert's Report prepared by Leadenhall Corporate Advisory Pty Ltd ACN 114 534 619 AFSL 293586 and included in Section E for the purposes of the Shareholder approval required under section 611 item 7 of the Corporations Act, 2001. The Independent Expert's Report comments on the fairness and reasonableness of the Share Acquisition to the Non-associated Shareholders. The Independent Expert has determined that the advantages of the Share Acquisition outweigh the disadvantages of the Share Acquisition and that the Share Acquisition is fair and reasonable to the Non-associated Shareholders.

## **VOTING EXCLUSION STATEMENT IN RELATION TO RESOLUTION 1**

In accordance with the voting restrictions of item 7 section 611 of the Corporations Act, 2001, no votes may be cast in favour of Resolution 1 by:

(a) the person proposing to make the Share Acquisition (namely John Andrew Walstab) and his Associates; or

(b) the person from whom the acquisition is to be made (Crisp Holdings Pty Limited) and its Associates.

Further information in relation to the above Resolution 1 is set out in the Explanatory Statement to this Notice of General Meeting (refer Section D).

By Order of the Board.

A handwritten signature in black ink, appearing to be 'JAW' or similar, written in a cursive style.

Chairman  
24 April 2017

## **Voting by Proxy**

A member entitled to attend and vote is entitled to appoint not more than two proxies.

Where a member appoints two proxies and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes.

A proxy need not be a Shareholder.

Those wishing to do so should sign the proxy form which accompanies this notice and ensure that it is received by 2.00 p.m. Sydney time on 28 May 2017 at the Company's Share Registry:

**Boardroom Pty Limited**  
**Level 12, 225 George Street**  
**Sydney, NSW, 2000**  
(Postal address: GPO Box 3993, Sydney, NSW, 2001)  
(Facsimile number: +61 2 9290 9655)

## **Entitlement to Vote**

In accordance with Regulation 7.11.37 of the Corporations Regulations, the Company has determined that for the purposes of the meeting, all Shares in the Company shall be taken to be held by the persons who held them as registered shareholders at 7.00 pm Sydney time on 28 May 2017 (**Entitlement Time**).

Subject to the Voting Exclusion Statement noted above, all holders of Shares in the Company as at the Entitlement Time are entitled to attend and vote at the meeting.



QUANTUM ENERGY LIMITED ABN 19 003 677 245

Share Registry: Boardroom Pty Limited, Level 12, 225 Street, Sydney, NSW, 2000

**PROXY/MEETING REGISTRATION FORM - GENERAL MEETING**

If you are attending the General Meeting please bring this document with you. The details on it will assist attendance registration. If you cannot attend the General Meeting, please complete this proxy form and return it to the Company's Share Registry by post in the reply paid envelope provided or by facsimile on +61 2 9290 9655 so that it is received not less than 48 hours before the time for holding the meeting.

I/We being a member/members of Quantum Energy Limited (Company) hereby appoint:

\_\_\_\_\_ of \_\_\_\_\_

**Name of Proxy** (in block letters)

or in his/her absence, or failing any appointment by me/us, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the General Meeting of the Company convened to be held at The Boardroom, 56-60 Bourke Road, Alexandria NSW, 2015 on 30 May 2017 at 2.00 p.m. and at any adjournment thereof.

If 2 proxies are being appointed, this proxy is authorised to exercise % *[insert percentage]* of my/our voting rights or *[insert number of votes]* of my/our votes. (The Company will supply another proxy form on request)

(If you wish to instruct your proxy how to vote, please mark the appropriate boxes below.)

**RESOLUTION 1**

**FOR**

**AGAINST**

To approve the Share Acquisition by Mr Walstab

☐☐

If you do not wish to direct your proxy how to vote (and you authorise your proxy, including the Chairman, to exercise the proxy on your behalf as your proxy sees fit) please place a mark in this box: ☐

The Chairman intends to vote all undirected proxies in favour of Resolution 1 set out in the Notice of General Meeting.

Votes will not be disregarded if they are cast as proxy for a person entitled to vote on Resolution 1:

-in accordance with a direction as specified on the proxy form as to how to vote; or

- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy as the Chairman sees fit (even though the Resolution relates to the Share Acquisition).

Signature of Registered

Shareholder(s).

.....

(If Corporation, execute in  
accordance with the following note

.....

3)

/ /2017

**PLEASE REFER TO THE FOLLOWING NOTES**

**NOTES:**

1. A member entitled to attend and vote at the General Meeting is entitled to appoint not more than two proxies or attorneys. Where two proxies are appointed and the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the member's votes. A proxy or attorney need not be a Shareholder of the Company.
2. On a show of hands a member present in person or by proxy or by attorney or, in the case of a corporation, by duly appointed representative shall have one vote and upon a poll one vote for every Share held provided that if a member appoints two proxies or two attorneys neither proxy or attorney shall be entitled to vote on a show of hands.
3. The proxy form must be signed by the member or his or her attorney duly authorised in writing or, if the member is a corporation, either in accordance with the prescribed execution procedures applying to that corporation or under the hand of an officer or attorney duly authorised in writing.
4. In the case of joint holders, all holders must sign.
5. If any attorney or authorised officer signs this proxy form on behalf of a member, the relevant power of attorney or other authority under which it is signed or a certified copy of that power or authority must be included with this proxy form.
6. The proxy form must be received by **2.00pm Sydney time on 28 May 2017 at the Company's Share Registry at:**

Boardroom Pty Limited

Level 12, 225 George Street, Sydney NSW 2000

(Postal Address: GPO Box 3993, Sydney, NSW 2001) or by facsimile on +61 2 9290 9655

## **SECTION D – EXPLANATORY STATEMENT**

QUANTUM ENERGY LIMITED ABN 19 003 677 245

### **EXPLANATORY STATEMENT TO NOTICE OF GENERAL MEETING**

This Explanatory Statement has been prepared to provide information to Shareholders of Quantum Energy Limited (the **Company**) in connection with the General Meeting of Shareholders to be held at 2.00pm Sydney time on 30 May 2017. In addition, the Independent Expert's Report is provided and contains an analysis as to whether the Share Acquisition referred to in Resolution 1 is fair and reasonable to the Non-associated Shareholders. The Independent Expert has concluded that the advantages of the Share Acquisition outweigh the disadvantages of the Share Acquisition and that the Share Acquisition is fair and reasonable to Non-associated Shareholders. A full copy of the Independent Expert's Report is contained in Section E. As noted previously, Shareholders should read each of the Notice of General Meeting (Section C), this Explanatory Statement (Section D) and the Independent Expert's Report (Section E) carefully and in their entirety.

#### **Resolution 1: Approval for the Share Acquisition by John Andrew Walstab**

1. On 7 February 2017 the Company announced that the Company had been advised that Crisp Holdings Pty Limited had entered into a conditional agreement with Mr John Andrew Walstab (Mr Walstab) to sell to Mr Walstab 465,693,959 of the Shares in the Company held by Crisp Holdings Pty Limited (representing 45.73% of the Shares in the Company) at a price of 0.816 cents per Share (representing an aggregate sale consideration payable by Mr Walstab to Crisp Holdings Pty Limited of \$3.8 million). The Share Acquisition would result in Mr Walstab increasing his Shareholding in the Company to 54.08% of the Shares in the Company, with Crisp Holdings Pty Limited's Shareholding being reduced to 28.29% of the Shares in the Company.

Under Resolution 1 Shareholders approval is sought pursuant to section 611 item 7 of the Corporations Act 2001 for the Share Acquisition by Mr Walstab from Crisp Holdings Pty Limited.

#### **2. Background to section 611 item 7 of the Corporations Act 2001**

##### **(a) Relevant Interests**

Pursuant to section 606(1) of the Corporations Act 2001, a person must not acquire a relevant interest in issued voting shares in a company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (i) from 20% or below to more than 20%; or

(ii) from a starting point that is above 20% to below 90%.

The voting power of a person in a company is determined in accordance with section 610 of the Corporations Act 2001. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's Associates have a relevant interest.

A person has a relevant interest in securities if they:

(i) are the holder of the securities;

(ii) have the power to exercise, or control the exercise of a right to vote attached to the securities;  
or

(iii) have the power to dispose of, or control the exercise of a power to dispose of, the securities.

(b) Item 7 of section 611 – an Exception to the section 606 Prohibition

Item 7 of section 611 of the Corporations Act 2001 provides an exception to the prohibition under section 606 of the Corporations Act 2001. The exception provides that a person may acquire a relevant interest in a company's voting shares with shareholder approval.

In order for the exception of item 7 of section 611 of the Corporations Act 2001 to apply, all information known to the person making the acquisition and their Associates or the company that is material to the decision on how to vote on the approval resolution must be provided to the shareholders. Such information includes:

(i) the identity of the person proposing to make the acquisition and their Associates;

(ii) the maximum extent of the increase in that person's voting power in the company that would result from the acquisition;

(iii) the voting power that person would have as a result of the acquisition;

(iv) the maximum extent of the increase in the voting power of each of that person's Associates that would result from the acquisition; and

(v) the voting power that each of that person's Associates would have as a result of the acquisition.

(c) Resolution 1: Shareholder approval sought for Mr Walstab's proposed acquisition of Shares

As at the date of this Explanatory Statement, the total number of issued Shares in the Company is 1,018,308,291. If Shareholder approval is given for the Share Acquisition referred to in Resolution 1, Mr Walstab would have a relevant interest in 54.08% of the issued Shares (assuming no further share issues take place). Mr Walstab's relevant interest in the Company of more than 20% as a result of the Share Acquisition would fall under the section 606 of the Corporations Act 2001 prohibition, however such Share Acquisition is permitted if prior Shareholder approval to the Share Acquisition is granted under item 7 of section 611 of the Corporations Act 2001 and Resolution 1 sets forth this approval resolution for consideration of Shareholders.

### **3. Information for Shareholders under paragraphs (b)(i)–(v) of item 7 of section 611 of the Corporations Act 2001**

The following information is provided to Shareholders for the purposes of the requirements under the Corporations Act 2001 in respect of obtaining Shareholder approval under item 7 of section 611 of the Corporations Act, 2001:

(a) paragraph (b)(i) : John Andrew Walstab is the person proposing to make the Share Acquisition and to be transferred the 465,693,959 Shares in the Company. Mr Walstab has no Associates;

(b) paragraph (b)(ii) : the maximum extent of the increase in voting power of John Andrew Walstab under the Share Acquisition is 45.73 %;

(c) paragraph (b)(iii) : the voting power John Andrew Walstab would have as a result of the Share Acquisition is 54.08 %. Mr Walstab's existing voting power prior to the Share Acquisition is 85,018,434 Shares, representing 8.35% of the Shares in the Company;

(d) paragraphs (b) (iv)-(v) : the extent of increase and voting power of Mr Walstab's Associates – Mr Walstab has no Associates so accordingly the Share Acquisition does not result in any increase in the voting power of any other person (other than Mr Walstab himself personally) – and the details of those increases are set out in (a),(b) and (c) above.

### **4. Effect on respective Shareholdings and Capital Structure as a result of Resolution 1; and Terms of the Share Acquisition**

The Share Acquisition does not affect the number of Shares on issue in the Company which remains at 1,018,308,291. The effect of the Share Acquisition on Shareholdings of key parties is set out in the Table below:

**TABLE OF SHAREHOLDINGS AFFECTED BY THE PROPOSED SHARE ACQUISITION  
(BEING PROPOSED SALE BY CRISP HOLDINGS PTY LIMITED TO MR WALSTAB OF  
465, 693, 959 SHARES IN THE COMPANY)**

	CRISP HOLDINGS PTY LIMITED		MR WALSTAB	
	No of Shares	%	No of Shares	%
<b>EXISTING POSITION AS AT THE DATE OF THIS MEETING DOCUMENTATION</b>	753 736 667	74.02%	85 018 434	8.35%
<b>POSITION IF SHARE ACQUISITION IS APPROVED</b>	288 042 708	28.29%	550 712 393	54.08%

Note:

1. Existing number of issued Shares in the Company is 1, 018, 308, 291
2. Mr Walstab's holding is held personally in his own name with the exception of 863,550 currently held jointly with Mr Townsend and Mr Sidney and 1,800 held by Walstab Pty Limited atf Walstab Superannuation Fund

The key terms of the proposed Share Acquisition, as contained in an agreement between the parties entered into on 7 February 2017 are as follows:

(a) The Seller is Crisp Holdings Pty Limited and the Buyer is John Andrew Walstab.

(b) The number of Shares agreed to be sold and transferred is 465,693,959, representing 45.73% of the Company's existing issued Shares.

(c) The sale price per sale Share is 0.816 cents, representing an aggregate consideration of \$3.8 million. The aggregate sale consideration is payable as to \$1.5 million at settlement of the share transfer (to occur on 1 June 2017), with the balance payable in 5 equal consecutive annual instalments of \$460,000.00 commencing on 1 July 2018. Pending the aggregate sale consideration having been paid in full, the reducing balance payable will bear interest at 10% p.a. to be paid by Mr Walstab annually.

(d) Warranties: the parties have agreed to provide warranties as to capacity and title and which are customary in an agreement of this nature.

(e) Conditions Precedent: the share sale agreement and Share Acquisition are conditional upon all consents and approvals required for the share transfer to proceed without breach of any law or contract being obtained, including approval of the Company's Shareholders to the Share Acquisition being obtained under item 7 of section 611 of the Corporations Act 2001.

(f) Governing Law: the agreement between the parties is governed by the laws of New South Wales.

#### Other Arrangements: Acknowledgements made to the Company

Crisp Holdings Pty Limited has acknowledged to the Company that the sale proceeds from the Share Acquisition transaction will be applied by it to ensure that indebtedness owed by Crisp Holdings Pty Limited and/or Mr Sidney to the Company (Crisp/Sidney Indebtedness) is fully satisfied. Mr Walstab has acknowledged to the Company that loan monies owed by the Company to Mr Walstab be applied to the Share Acquisition sale consideration and in turn to satisfy the Crisp/Sidney Indebtedness; and that in addition, pending the annual purchase price instalments of the sale consideration being paid by him in full, Mr Walstab personally guarantees to the Company any balance of the Crisp/Sidney Indebtedness (up to the amount of unpaid purchase price instalments and interest remaining payable by Mr Walstab under the Share Acquisition agreement). Accordingly, the Share Acquisition facilitates the Crisp/Sidney Indebtedness being satisfied in full, while similarly also having the Company's loan obligations to Mr Walstab being substantially addressed such that the Company considers the Company ought not need to re-finance or obtain alternative funding to fully satisfy that loan obligation. The dual impact of this simplifies the Company's Balance Sheet and is beneficial for the Company. Further details in relation to these aspects are set out in the Independent Expert's Report, particularly pages 7 and 16 of that Report.

#### **5. ASIC Regulatory Guide 74 – Information in relation to the Share Acquisition required to be provided to Shareholders under ASIC Regulatory Guide 74 (RG 74)**

The following is further information required to be provided for Shareholders under ASIC RG 74:

##### *(a) an explanation of the reasons for the proposed acquisition*

As set out in the Company's Announcement dated 7 February 2017, the proposed Share Acquisition has arisen in the circumstances of the Company's founding and long-term Managing Director, Mr Sidney, retiring from the Company after 13 years and wishing to sell down a portion of the Shares held by his associated company, Crisp Holdings Pty Limited. Mr Walstab has had



extensive experience across the Company's businesses, has been appointed by the Board to take the Company forward as its current Managing Director and took the decision to acquire the additional Shares to ensure stability for the Company was maintained and to demonstrate his belief in and commitment to the Company's future.

*(b) when the proposed acquisition is to occur*

Completion of the Share Acquisition is proposed to occur within 7 days following the date that Shareholder approval is obtained for the Share Acquisition under Resolution 1 and is currently scheduled for 1 June 2017.

*(c) the material terms of the proposed acquisition*

Detailed information as to the terms of the proposed Share Acquisition is set out in Section 4 above.

*(d) details of the terms of any other relevant agreement between the acquirer and the target entity or vendor (or any of their associates) that is conditional on (or directly or indirectly depends on) members' approval of the proposed acquisition*

This information is addressed in Section 4 above, and other than set out therein, there is no other contract or proposed contract between Crisp Holdings Pty Limited and Mr Walstab or any of their Associates and the Company which is conditional upon, or directly or indirectly dependent on Shareholders' approval of the Share Acquisition.

*(e) a statement of the acquirer's intentions regarding the future of the target entity if members approve the acquisition and, in particular:*

*(i) any intention to change the business of the entity*

Mr Walstab does not have any present intention to change the business of the Company. He is committed to the Company taking further advantage of all opportunities in all sectors of the Company's business so the Company can maximise its overall performance. Since his appointment as Managing Director on 7 February 2017, Mr Walstab has been undertaking a review of the Company's business to ensure the Company refines and updates its strategies across its key business sectors to maximise its overall performance. Certain changes in the Company's administrative functions, internal procedures, staff and core services have recently been implemented in order to continue and improve efficiencies across the Company's divisions. Consistent with the strategic outlook the Company has always adopted, Mr Walstab supports the Company continuing to explore further opportunities through strategic alliances and/or complementary acquisitions. In this regard, the Company has commenced collaborating with third party companies for the design, manufacture and distribution of energy efficient heating, IT

communication and water sterilising systems used predominately in Healthcare industries and this will allow further synergies and integration of the Energy and Health divisions within the Quantum Group.

*(ii) any intention to inject further capital into the entity*

Mr Walstab does not have any present intention to inject further capital into the Company.

*(iii) the future employment of present employees of the entity*

Mr Walstab does not have any present intention to make any changes to the employment arrangements of the present employees of the Company. The implementation of the strategic and business decisions of the nature referred to under paragraph (i) above, may going forward impact to some degree employment and resource allocation arrangements.

*(iv) any proposal where assets will be transferred between the entity and the acquirer or vendor or their associates*

Mr Walstab does not have any present intention to transfer any assets between the Company and Mr Walstab or any person associated with Mr Walstab.

*(v) any intention to otherwise redeploy the fixed assets of the entity*

Mr Walstab does not have any present intention to redeploy the fixed assets of the Company.

*(f) any intention of the acquirer to significantly change the financial or dividend distribution policies of the entity*

Mr Walstab does not have any present intention to significantly change the financial or dividend distribution policies of the Company.

*(g) the interests that any director has in the acquisition or any relevant agreement disclosed under RG 74.25(d)*

Two of the Company's Directors, namely Mr Walstab and Mr Townsend have an interest in the Share Acquisition. Mr Townsend is associated with Crisp Holdings Pty Limited, though as is set out in Item 4 above, as the proceeds from the Share Acquisition are being applied to satisfy the Crisp/Sidney Indebtedness, Mr Townsend will not receive any amount of the Share Acquisition consideration proceeds. Mr Walstab has an interest in the Share Acquisition as the buyer and full details of Mr Walstab's interest in relation to the Share Acquisition are set out in this Explanatory Statement and are also addressed in the Independent Expert's Report. In view of Mr Townsend's and Mr Walstab's respective interests in the Share Acquisition, the Company's preparation and

despatch of the Meeting documentation has been overseen by Mr Mackenzie, an independent Director on the Board who has no personal interest in the Share Acquisition.

*(h) details about any person who is intended to become a director if members approve the acquisition*

Mr Walstab does not have any present intention to support the appointment of any particular person to become a director of the Company. Mr Walstab does believe that it will likely be in the Company's interest to expand the Board at an appropriate future time and is supportive of the Board keeping this under review and considering appropriate persons who can contribute at Board level to the ongoing growth and profitability of the Company's business.

## **6. Independent Expert's Report**

In accordance with the requirements of RG 74, Leadenhall Corporate Advisory Pty Ltd ACN 114 534 619 AFSL 293586 has been appointed as an Independent Expert to prepare and provide an Independent Expert's Report which contains an analysis of whether the proposed Share Acquisition by Mr Walstab is fair and reasonable for Non-associated Shareholders.

The Independent Expert has concluded that the advantages of the Share Acquisition outweigh the disadvantages of the Share Acquisition and that the Share Acquisition is fair and reasonable to the Non-associated Shareholders. For a summary of the Independent Expert's findings please refer to page 3 of the Independent Expert's Report.

The Independent Expert has given, and not before the date of this Notice of General Meeting Documentation withdrawn, its consent to the inclusion of the Independent Expert's Report in Section E of this Meeting Documentation and to the references to the Independent Expert in this Meeting Documentation being made in the form and context in which each such reference is included.

## **7. Advantages and Disadvantages of the Share Acquisition**

A Summary of the Independent Expert's assessment of the Advantages and Disadvantages of the Share Acquisition is set out on pages 3 and 16-17 of the Independent Expert's Report (refer Section E).

The Company considers the advantages of the Share Acquisition are:

(a) Mr Walstab has extensive experience and expertise in and understanding of all sectors of the Company's business and his decision to increase his Shareholding through the Share Acquisition is a welcome demonstration of his commitment to the Company and its future;

(b) As indicated above, the Share Acquisition facilitates the Crisp/Sidney Indebtedness being satisfied in full, while similarly also having the Company's loan obligations to Mr Walstab being substantially addressed such that the Company considers the Company ought not need to re-finance or obtain alternative funding to fully satisfy that loan obligation. The dual impact of this simplifies the Company's Balance Sheet and is beneficial for the Company; and

(c) notwithstanding the Share Acquisition, the opportunity of the Company's Shareholders receiving a takeover bid remains unchanged.

## **8. Recommendation of the Directors and Voting Intentions at the Shareholders Meeting in relation to Resolution 1**

As each of Mr Walstab and Mr Townsend has an interest in the Share Acquisition each has abstained from making a Recommendation to Shareholders in relation to Resolution 1. For the reasons set out in Section 7 above, and having regard to the analysis and conclusions set out in the Independent Expert's Report, Mr Mackenzie, an independent Director on the Board recommends that Shareholders vote in favour of Resolution 1.

Under the prescribed Voting Exclusion provisions referred to above, each of Mr Walstab and Crisp Holding Pty Limited and the respective Associates of each (including Mr Townsend in relation to Crisp Holdings Pty Limited) are excluded from voting as Shareholders at the Shareholders Meeting in relation to Resolution 1.

In relation to Mr Mackenzie, neither he, nor any Associate of his holds Shares in the Company, and will not be voting at the Shareholders Meeting in relation to Resolution 1.

## **9. Defined terms used in the Notice of General Meeting (Section C) and this Explanatory Statement (Section D)**

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to that term in sections 10 to 17 of the Corporations Act 2001 (Cth), in particular section 12.

Company means Quantum Energy Limited ABN 19 003 677 245.

Corporations Act means the Corporations Act 2001 (Cth).

Independent Expert means Leadenhall Corporate Advisory Pty Ltd ACN 114 534 619 AFSL 293586.

Independent Expert's Report means the report prepared by the Independent Expert as set out in Section E.

Non-associated Shareholders are Shareholders who are not associated with the Share Acquisition and not Associates of Crisp Holdings Pty Limited and its Associates and/or Mr Walstab and his Associates.

Share means a fully paid ordinary share in the issued capital of the Company and Shares means any 2 or more of them.

Shareholder or member means a holder of a Share.

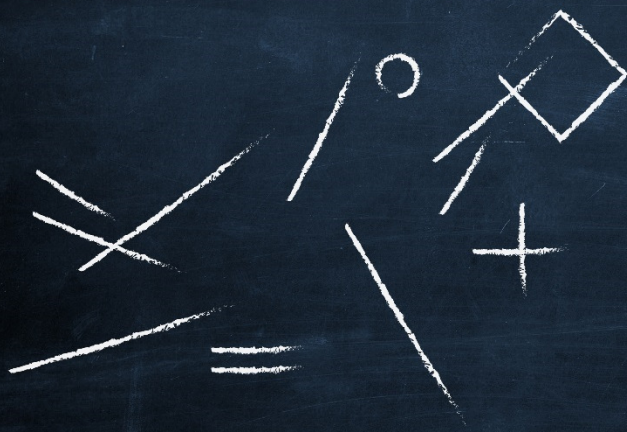
Share Acquisition means the proposed acquisition by Mr John Andrew Walstab of 465,693,959 Shares from Crisp Holdings Pty Limited at 0.816 cents per Share (being an aggregate consideration of \$3.8 million) and on the other terms summarised in Item 4 of this Explanatory Statement.

## **SECTION E: INDEPENDENT EXPERT'S REPORT**

# QUANTUM ENERGY LIMITED

PROPOSED ACQUISITION OF SHARES BY MR JOHN WALSTAB

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE  
18 APRIL 2017



18 April 2017

The Independent Director  
Quantum Energy Limited  
50-60 Bourke Road  
Alexandria NSW 2015

Dear Director,

## Independent Expert's Report for Quantum Energy Limited

### 1. Introduction

Quantum Energy Limited ("**Quantum**") is an ASX listed company that engages in the manufacture and distribution of energy saving hot water systems for residential and commercial markets in Australia and internationally. Quantum also distributes high-end medical products particularly in the field of nuclear medicine, radiology and oncology.

On 7 February 2017 Quantum announced the retirement of Mr Phillip Sidney as Managing Director of Quantum and the appointment of Mr John Walstab as the new Managing Director.

In conjunction with the transition, Mr Sidney and Crisp Holdings Pty Ltd ("**Crisp Holdings**"), a company controlled by Mr Sidney and Mr Drew Townsend the Chairman of Quantum, have entered into a Heads of Agreement for Mr Walstab to acquire a parcel of shares representing 45.73% of the issued shares in Quantum for an aggregate price of \$3.8 million (or 0.816 cents per share) ("**Proposed Transaction**"). For the purpose of our report Mr Sidney and Mr Townsend are collectively referred to as the Vendors. Further information regarding the Proposed Transaction is set out in section 1 of this report.

### 2. Purpose of the report

As Mr Walstab would acquire a greater than 20% interest in Quantum should the Proposed Transaction proceed, the transaction is subject to approval by Quantum shareholders not associated with Mr Walstab and the Vendors ("**Shareholders**"). In order to assist Shareholders evaluate the Proposed Transaction, the independent director of Quantum has requested Leadenhall Corporate Advisory Pty Limited ("**Leadenhall**") to prepare an independent expert's report assessing whether the Proposed Transaction is fair and reasonable to Shareholders.

This report is to be included in the notice of meeting that will be sent to Quantum's shareholders regarding the Proposed Transaction ("**Notice of Meeting**").

Further information regarding the purpose of this report is provided in Section 1 of this report.

### 3. Basis of evaluation

In order to assess whether the Proposed Transaction is fair and reasonable we have considered the advantages and disadvantages to Shareholders of the Proposed Transaction. In particular, we have:

- ◆ Assessed the Proposed Transaction as fair and reasonable if the advantages to Shareholders outweigh the disadvantages
- ◆ Assessed the Proposed Transaction as neither fair nor reasonable if the disadvantages to Shareholders outweigh the advantages

Further details of the basis of evaluation are provided in Section 2 of this report.

#### 4. Advantages

The main advantages of the Proposed Transaction are:

- ◆ Reduces gearing and provides certainty over repayment of shareholder loans
- ◆ Further aligns interests with incoming Managing Director
- ◆ Facilities orderly sale of a large shareholding block
- ◆ No change in operational aspects of the business
- ◆ No change in control from minority shareholder's perspectives
- ◆ Vendors do not appear to be receiving a control premium

Further details of the above advantages are set out in Section 4.2 of our detailed report.

#### 5. Disadvantages

The main disadvantages of the Proposed Transaction are:

- ◆ May preclude a takeover offer in the near term

Further details of the above disadvantages are set out in Section 4.3 of our detailed report.

#### 6. Opinion

Having regard to the above, we consider that the advantages outweigh the disadvantages. In particular, we consider the increased visibility in respect of the repayment of the Crisp Loan and the reduction in the liability to Mr Walstab as well as the orderly transition to the new management team outweighs the limited disadvantages. As we have concluded that the advantages of the Proposed Transaction outweigh the disadvantages, in our opinion, the Proposed Transaction is fair and reasonable to Shareholders.

This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

Yours faithfully



Dave Pearson  
**Director**



Richard Norris  
**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.*



**LEADENHALL CORPORATE ADVISORY PTY LTD**

**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 \$15,000 (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.

## **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](mailto: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 have the option of contacting the Financial Ombudsman Service ("**FOS**"). The FOS will then be able to advise you as to whether or not they can assist in this matter. The FOS can be contacted at the following address:

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001

Telephone: 1300 780 808  
Email: [info@fos.org.au](mailto:info@fos.org.au)

## **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.

18 April 2017

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## 1 OVERVIEW OF THE PROPOSED TRANSACTION

On 7 February 2017, Quantum announced the retirement of Mr Sidney as Managing Director of Quantum and the appointment of Mr Walstab as the new Managing Director.

In conjunction with the transition, Mr Sidney and Crisp Holdings entered into a Heads of Agreement for Mr Walstab to acquire a parcel of shares representing 45.7% of the issued shares in Quantum for an aggregate price of \$3.8 million (or 0.816 cents per share).

The sale consideration is payable in stages with \$1.5 million payable at settlement of the share transfer and the balance payable in five equal annual instalments commencing 1 July 2018.

The current holdings before and after the Proposed Transaction (if approved) are summarised in the table below:

	Crisp Holdings		Mr Walstab	
	No Shares	%	No Shares	%
Prior to Proposed Transaction	753,736,667	74.0%	85,018,434	8.4%
If Proposed Transaction Proceeds	288,042,708	28.3%	550,712,393	54.1%

Source: Quantum

As at 28 February 2017 Quantum:

- ♦ was owed approximately \$4.2 million (including accrued interest) by Mr Sidney / Crisp Holdings ("**Crisp Loan**"). The Crisp Loan bears interest at 10% per annum and is payable on demand
- ♦ owed Mr Walstab approximately \$4.9 million (including accrued interest) ("**Walstab Loan**"). The Walstab Loan bears interest at 15% per annum (10% per annum for accrued interest). Interest is payable on demand and repayment of principal is as determined by the borrower (Quantum)

Crisp Holdings has agreed that the proceeds from share sale will be applied by it to ensure that the Crisp Loan from the company is fully repaid.

Mr Walstab has also agreed that the Walstab Loan be applied to the share sale consideration and in turn to satisfy the Crisp Loan. In addition, pending the annual purchase price instalments of the sale consideration being paid by him in full, Mr Walstab will personally guarantee to the company any balance of the Crisp Loan (up to the amount of unpaid purchase price instalments and interest remaining payable by Mr Walstab under the terms of the transaction).

## 2 SCOPE

### 2.1 Purpose of the report

An acquisition of securities that enables a shareholder to increase its relevant interest in a public company from below 20% to above 20% is prohibited under Section 606 of the Corporations Act 2001 ("**Section 606**"), except in certain circumstances. One of the exceptions to Section 606 is where the acquisition is approved at a general meeting of the target company in accordance with Item 7 of Section 611 of the Corporations Act 2001 ("**Item 7**").

Item 7 requires shareholders to be provided with all the information known to the company and to the potential acquirer that is material to the shareholders' decision. *Regulatory Guide 74: Acquisitions Approved by Members* ("**RG74**") issued by the Australian Securities and Investment Commission ("**ASIC**") provides additional guidance on the information to be provided to shareholders in relation to transactions approved under Item 7. RG 74 states that the directors of the target company should provide members with an independent expert's report or a detailed directors' report on such a transaction.

If the Proposed Transaction is approved, Mr Walstab's interest in Quantum would increase from 8.3% to 54.1%. Approval for the Proposed Transaction is therefore being sought at a general meeting of Quantum's shareholders. The independent director of Quantum has requested Leadenhall to prepare an independent expert's report assessing whether the Proposed Transaction is fair and reasonable to Shareholders. This report is to be included in the notice of meeting and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Transaction.

### 2.2 Basis of evaluation

The Corporations Act 2001 does not define the term '*fair and reasonable*' nor does it contain any guidance on what should be considered when assessing whether a proposed transaction is fair and reasonable. However, guidance on what an independent expert should consider and how '*fair and reasonable*' should be defined is contained in *Regulatory Guide 111: Content of Expert Reports* ("**RG 111**") issued by the ASIC.

RG 111.42, which relates to the approval for sale of securities under Item 7, states that an expert should identify the advantages and disadvantages of a transaction involving the sale of securities such as the Proposed Transaction. We have therefore considered the advantages and disadvantages of the Proposed Transactions to Shareholders and assessed the transaction as:

- ◆ Fair and reasonable if the advantages outweigh the disadvantages to Shareholders
- ◆ Neither fair nor reasonable if the disadvantages outweigh the advantages to Shareholders

In assessing the Proposed Transaction, we have considered the following significant factors recommended by RG 111:

- ◆ Whether the Vendors are receiving a premium for control
- ◆ Whether the Proposed Transaction might deter a future takeover offer for Quantum

We have also considered the 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 this Proposed Transaction on their specific financial circumstances.

## 3 QUANTUM

### 3.1 History

A brief history of Quantum is set out in the table below:

Year	Event
1975	◆ Founded under the name of <i>Wilworth Ltd</i>
1993	◆ Formally listed on the Australian Securities Exchange
1993	◆ Name change to <i>Wellworth International Holdings Company Ltd</i>
1994	◆ Name change to <i>Wellworth China Investments Ltd</i>
2002	◆ Merger with <i>Quantum Energy Ltd</i> ◆ Name change to <i>Quantum Energy Ltd</i>
2006	◆ Acquires <i>Insight Oceania Pty Ltd</i>
2014	◆ Acquires Oncology Imaging Systems Korea Co. Ltd ◆ Acquires Quantum Healthcare Thailand Co. Ltd
2014	◆ Acquires Oncology Imaging Systems Korea Co. Ltd ◆ Acquires MediThai Korea (Thailand) Co. Ltd
2015	◆ Acquires a majority stake in D&D Hunex Co. Ltd

Source: Quantum

### 3.2 Operations

Quantum engages in the manufacture and distribution of energy saving hot water systems for residential and commercial markets in Australia and internationally. Quantum also distributes high-end medical products particularly in the field of nuclear medicine, radiology and oncology. Quantum has manufacturing operations in China and distribution in Australia and New Zealand. The company operates in two segments Environmental Services and Medical Services as described further below.

#### Environmental Services

Environmental Services is one of the two primary segments in which Quantum operates. Its main operational activity is the manufacture and distribution of energy saving heat pump technology, hot water and heat/cooling systems. The main products sold are solar heat pumps (which use technology to produce hot water in all temperatures and climates), electric and gas water heaters. These are predominantly sold in Australia, with a small proportion sold internationally, targeting both the residential and commercial markets and more recently to develop partnerships to produce and distribute healthcare related heating and water sterilizing products.

#### Medical Services (Quantum Health Group)

Medical Services is the other primary segment in which Quantum operates, via its various subsidiaries in Australia, Thailand, Korea and China. Its main operational activity is the sale, service and clinical support of high technology medical equipment, representing leading global healthcare manufacturers such as Samsung, Phillips, Accuray and IBA cyclotrons for their medical imaging system, cancer treatment equipment. and Medical IT solutions.

Quantum has more recently invested in the expanding market of Medical Services and new equipment funding models. Quantum's recent acquisitions include D&D Hunex Co. Ltd ("D&D Hunex"), Oncology Imaging Systems Korea Co Ltd and MediThai Korea (Thailand) Co. Ltd which have subsequently been renamed with the Quantum brand.

This segment has a strong presence in Australia, Korea and Thailand, targeting the radiology, oncology, nuclear medicine and women's healthcare markets.

### 3.3 Key Personnel

The Board of Directors of Quantum comprises:

**Table 1: Directors of Quantum**

Directors	Experience
<b>Drew Anthony Townsend</b> Chairman and Non-Executive Director	<p>Drew Anthony Townsend is the Chairman of Quantum with over 22 years' experience in Australian and International accounting and finance. He is a Member at Australian Institute of Company Directors, a Member at Chartered Accountants Australia and New Zealand, a Member of The Institute of Internal Auditors (Australia), and Senior Partner at Hall Chadwick. He is also on the Board of Directors at Medlab Clinical Ltd.</p>
<b>John Walstab</b> Managing and Executive Director	<p>John Walstab is the newly appointed Managing Director at Quantum Energy Ltd, effective from 7 February 2017. He was previously the Company Secretary and Executive Director of Quantum and has been a Board member since 2003, with a wide range of experience in technology organisations and developing overseas markets.</p>
<b>Angus Mackenzie</b> Non-Executive Director	<p>Angus Mackenzie recently joined the Board as a Non-Executive Director, effective from 7 February 2017. He has extensive investment banking and legal experience in the Australian and USA capital markets with senior executive positions in leading international investment banks and law firms. He holds a Master of Business Administration, a Master of Laws, a Bachelor of Laws and a Bachelor of Arts (Honours).</p>

Source: Quantum

### 3.4 Financial performance

A summary of the audited statements of financial performance for the periods ended 30 June 2015 ("FY15"), 30 June 2016 ("FY16") and the unaudited results for the six months to 31 December 2016 are set out in the table below.

**Table 2: Quantum's financial performance**

\$'000	FY15	FY16	Dec-16 (6 months)
<b>Revenue from continuing activity</b>	<b>39,153</b>	<b>58,797</b>	<b>29,423</b>
Cost of Sales	(21,686)	(36,761)	(16,270)
<b>Gross profit</b>	<b>17,467</b>	<b>22,036</b>	<b>13,153</b>
Other income	4,452	2,011	368
<b>Expenses</b>			
Employee benefits expense	(10,865)	(13,074)	(6,290)
Advertising and promotion expenses	(463)	(385)	(165)
Interest	(892)	(1,592)	(665)
Research and development expenditure	(398)	(524)	(300)
Travel expenses	(1,099)	(1,206)	(628)
Occupancy (rent) expenses	(1,165)	(1,450)	(727)
Sundry expenses	(1,456)	(2,353)	(570)
Foreign exchange gain/(loss)	(1,869)	(312)	(590)
Other expenses	(1,884)	(3,293)	(2,512)
<b>Total expenses</b>	<b>(20,091)</b>	<b>(24,189)</b>	<b>(12,447)</b>
<b>EBITDA</b>	<b>1,828</b>	<b>(142)</b>	<b>1,074</b>
Depreciation and amortisation - non-manufacturing	(232)	(438)	(206)
<b>Profit from Continuing Operations before income tax</b>	<b>1,596</b>	<b>(580)</b>	<b>868</b>
Income tax (expense)/credit	(192)	100	(282)
<b>Net profit/(loss) from Continuing Operations</b>	<b>1,404</b>	<b>(480)</b>	<b>586</b>
Loss from Discontinued Operations	(418)	-	-
<b>Net profit/(loss) after tax</b>	<b>986</b>	<b>(480)</b>	<b>586</b>
<b>Other financial information</b>			
Gross margin	45%	37%	45%
EBITDA margin	5%	0%	4%
Net profit margin	3%	-1%	2%

Source: Quantum

In relation to the historical financial performance of Quantum set out above, we note the following:

- ◆ Revenue increased 50% in FY16, driven by strong performances from the Medical Services division, particularly from the operations in Korea due to the acquisition of D&D Hunex in FY16.
- ◆ Revenue for the period ending 30 June 2017 ("FY17") is expected to remain flat, due to the poor performance from the Environmental Services division, slightly offset by further improvements from the Medical Services division.



- ◆ Expenses increased 23% in FY16, with the most significant factor being employee benefits expenses. This increase in FY16 is attributed to the increase in headcount from the acquisition of D&D Hunex, a manufacturer of medical equipment which is a labour-intensive process.
- ◆ Due to the higher cost of sales and expenses, EBITDA margin declined in FY16 despite significant improvements to revenue. This margin recovered to 4% in the six months to 31 December 2016.

### 3.5 Financial position

A summary of the audited statements of financial position as at 30 June 2015 and 30 June 2016 and the unaudited position as at 31 December 2016 are set out in the table below.

**Table 3: Quantum's financial position**

\$'000	Jun-15	Jun-16	Dec-16
Cash and cash equivalents	3,005	2,980	3,188
Trade and other receivables	5,866	9,120	9,493
Inventories	19,683	16,588	16,444
Financial assets	1,847	2,964	1,279
Other current assets	3,567	2,982	3,046
<b>Total current assets</b>	<b>33,968</b>	<b>34,634</b>	<b>33,450</b>
Investment accounted for using equity method	24	-	-
Trade and other receivables	261	114	-
Property, plant and equipment	1,267	4,242	3,864
Deferred tax assets	1,589	1,876	1,809
Intangible assets	19,288	20,127	20,127
Financial assets	4,977	5,398	5,914
Other	604	774	778
<b>Total non-current assets</b>	<b>28,010</b>	<b>32,531</b>	<b>32,492</b>
<b>Total assets</b>	<b>61,978</b>	<b>67,165</b>	<b>65,942</b>
Trade and other payables	17,859	17,505	16,544
Borrowings	8,561	13,738	10,119
Current tax liabilities	95	157	301
Short term provisions	1,743	1,986	1,773
<b>Total current liabilities</b>	<b>28,258</b>	<b>33,386</b>	<b>28,737</b>
Trade and other payables	2,918	2,244	1,941
Borrowings	3,370	4,015	6,942
Employee benefits	408	1,266	1,406
<b>Total non-current liabilities</b>	<b>6,696</b>	<b>7,525</b>	<b>10,289</b>
<b>Total liabilities</b>	<b>34,954</b>	<b>40,911</b>	<b>39,026</b>
<b>Net assets</b>	<b>27,024</b>	<b>26,254</b>	<b>26,916</b>
<i>Net assets per share (book value in cents)</i>	<i>2.65</i>	<i>2.58</i>	<i>2.64</i>
<i>Gearing ratio (net debt / net debt + equity)</i>	<i>25%</i>	<i>36%</i>	<i>34%</i>

Source: Quantum

In relation to the historical financial position of Quantum set out above, we note the following:

- ◆ Total trade and other receivables have increased significantly due to delayed payment and increased sales volumes over FY16.
- ◆ Non-current financial assets primarily relate to deposits and the Crisp Loan (\$3.8 million at 31 December 2016).
- ◆ The increase in property, plant and equipment in FY16 was mainly due to the acquisition of D&D Hunex.
- ◆ Intangible assets relate to goodwill recognised upon the acquisition of various entities, with the bulk arising from the acquisitions of both Quantum Healthcare Korea Co. Ltd and Insight Oceania Pty Ltd.
- ◆ Total borrowings increased significantly in FY16 and relate to a combination of debt in the Korean medical subsidiaries and loans from directors (including Mr Walstab) and other related parties.

### 3.6 Capital structure and shareholders

As at 14 March 2017 Quantum had a total of 1,018,308,291 ordinary shares on issue. The following table sets out details of Quantum's substantial shareholders as at that date:

**Table 4: Quantum's top ten shareholders**

Shareholder	Number held	%
Crisp Holdings Ltd	753,736,667	74.0%
Mr John Walstab	85,018,434	8.3%
Mr Andrew McDonald	62,622,896	6.1%
<b>Sub-total</b>	<b>901,377,997</b>	<b>88.5%</b>
Other shareholders	116,930,294	11.5%
<b>Total</b>	<b>1,018,308,291</b>	

Source: Quantum

### 3.7 Share trading

We have analysed recent share trading in Quantum shares as set out in the figure below.

**Figure 1: Quantum's share price performance**



Source: FactSet, Leadenhall analysis

We make the following observations in respect of the figure above:

- ◆ There has been limited liquidity in Quantum's shares, as reflected by the limited trading volumes over the period. Apart from the volume spikes in January and February 2017 (subsequent to the announcement of the Proposed Transaction), the average volume of shares traded was approximately 64,000 per day, with long periods of no trading.
- ◆ Quantum's share prices fluctuated between \$0.010 per share to \$0.040 per share, with sharp movements in prices during periods of relatively higher trading activities around June 2016 and February 2017. After reaching its peak of \$0.040 in June 2016, the share price declined steadily to a low of \$0.010 in January 2017, before recovering to \$0.020 more recently.
- ◆ The VWAP over the past twelve months was \$0.022, which is broadly in line with the current share price. The range of prices and VWAPs observed over the period are summarised below:

**Table 5: Quantum's share prices and VWAP**

	Over the previous:		
	3 months	6 months	12 months
Low	\$0.010	\$0.010	\$0.010
High	\$0.023	\$0.025	\$0.040
VWAP	\$0.016	\$0.018	\$0.022

Source: FactSet

## 4 EVALUATION

### 4.1 Introduction

In order to assess whether the Proposed Transaction is fair and reasonable to Shareholders we have evaluated whether the advantages of the transaction outweigh the disadvantages. We have therefore considered the principal advantages and disadvantages of the Proposed Transaction as set out below.

### 4.2 Advantages

#### **Reduces gearing and provides certainty over repayment of shareholder loans**

As part of the Proposed Transaction, Crisp Holdings has agreed that the proceeds from the share sale will be applied by it to ensure that the \$4.2 million Crisp Loan to the company is fully satisfied. As a result, the gearing of the company will reduce by \$1.5 million (from approximately 34% at 30 June 2017 to 30%) at settlement.

Also, Mr Walstab will personally guarantee to the company any balance of the Crisp Loan (up to the amount of unpaid purchase price instalments and interest remaining payable by Mr Walstab under the Share Acquisition Agreement).

In the absence of the Proposed Transaction, the timing of repayment of the Crisp Loan would be uncertain and subject to the credit risk of only Crisp Holdings. Furthermore, the company would need to fund the full repayment of the \$4.9 million Walstab Loan.

The Proposed Transaction therefore provides increased certainty in respect of the settlement of the loan to Crisp Holdings and the funding of the repayment of the Walstab Loan without any dilution or other costs to existing Shareholders.

#### **Further aligns interests with incoming Managing Director**

The Proposed Transaction has arisen as a consequence of the founding and long-term Managing Director, of Quantum, Mr Sidney, retiring from the company after 13 years and wishing to sell down a portion of the Shares held by his associated company, Crisp Holdings.

Mr Walstab has had extensive experience across Quantum's businesses, in particular leading the medical services aspect of the business as well as having been a member of the board and management team for 13 years. This expertise has resulted in the Board appointing Mr Walstab to take the company forward as its Managing Director.

The Proposed Transaction further aligns the interests of the incoming Managing Director and other shareholders.

#### **Facilitates orderly sale of a large shareholding block**

The Proposed Transaction facilitates an orderly sale of a large shareholding block to an existing shareholder with no significant consequences to minority shareholders.

In the absence of the Proposed Transaction, it is likely that all or a portion of the Crisp Holdings stake would be offered for sale to a third party. Depending on the approach to the sale, this may put downward pressure on the share price.

#### **No change in operational aspects of the business**

Mr Walstab has stated that he does not have any present intention to change the business, capital structure or any other substantive aspect of the company and is committed to taking further advantage of all opportunities in all sectors of the Company's business.

Since his appointment as Managing Director on 7 February 2017, Mr Walstab has been undertaking a review of the Quantum's business to ensure the company refines and updates its strategies across its key business sectors to maximise its overall performance.

### No change in control from minority shareholder's perspectives

The Proposed Transaction does not result in any change in practical control from a minority shareholders perspective. As a result, the Proposed Transaction does not increase or diminish the ability of minority shareholders to participate in a control transaction in the future.

### Vendors do not appear to be receiving a control premium

We have compared the price to be paid to the Vendors to other relevant valuation benchmarks, in particular recent share trading and the net assets per share. We have considered recent share trading in terms of the VWAP over a period of three, six and 12 months as we consider this represents a reasonable proxy for the value of a minority parcel of shares reflecting the limited liquidity in the shares. We have also considered the net assets per share based on the most recently audited net assets of Quantum.

As set out below, the price to be paid to the Vendors is below the prices observed in recent trading of Quantum shares (on a minority basis) as well as the net assets per share (which is on a control basis) and therefore it does not appear as though the Vendors are receiving a control premium.

**Table 6: Summary of valuation metrics per share**

		Premium (discount) of price paid to Vendors
Acquisition price per share (cents)	0.816	n/a
<b>Valuation metrics</b>		
VWAP (3 Months)	1.600	-49%
VWAP (6 Months)	1.800	-55%
VWAP (12 Months)	2.200	-63%
Net assets per share as at 31 December 2016	2.640	-69%

Source: Leadenhall analysis

## 4.3 Disadvantages

### May preclude a takeover offer in the near term

In the absence of the Proposed Transaction, it is likely that Crisp Holdings would seek alternate means to divest all or a portion of the existing 74% interest in Quantum. Given the size of the stake, it is possible that an alternate acquirer may consider a takeover offer for all of the shares to obtain complete control. This could result in Shareholders realising a control premium as part of the exit by Crisp Holdings.

## 4.4 Opinion

Having regard to the above, we consider that the advantages outweigh the disadvantages. In particular, we consider the increased visibility in respect of the repayment of the Crisp Loan and the reduction in the liability to Mr Walstab as well as the orderly transition to the new management team outweighs the limited disadvantages. We therefore consider the Proposed Transaction to be fair and reasonable to Shareholders.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by their own particular circumstances. If in doubt, the shareholder should consult an independent financial adviser.

## APPENDIX 1: GLOSSARY

Term	Meaning
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited
AUD	Australian Dollar
Corporations Act	The Corporations Act 2001
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial year
Item 7	Item 7 of Section 611 of the Corporations Act
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
Proposed Transaction	The potential acquisition of the issued equity in Quantum
RG111	Regulatory Guide 111: Content of Expert Reports
RG74	Regulatory Guide 74: Acquisitions Approved by Members
Shareholders	Current shareholders of Quantum not associated with the Proposed Transaction

## APPENDIX 2: 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 to Quantum's management for confirmation of factual accuracy.

### **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 Dave Pearson, CA, CPA, CFA, CBV, MAppFin, Bcomm and Richard Norris, BA (Hons), FCA, M.App.Fin.

### **Independence**

Leadenhall has acted independently of Quantum. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.