

ASX Announcement: Calliden Group Limited (CIX)

31 October 2014

Scheme Booklet registered with ASIC

Calliden Group Limited ('Calliden') (ASX:CIX) announces today that the Australian Securities and Investments Commission has registered the Scheme Booklet in relation to the previously announced Scheme of Arrangement ('Scheme') under which Steadfast Group Ltd will acquire 100% of the shares in Calliden.

A copy of the Scheme Booklet, including the Independent Expert's Report, is attached to this announcement. Printed copies of the Scheme Booklet, which incorporates the Independent Expert's Report, and a personalised proxy form will be sent to Calliden shareholders over the next week.

The Calliden Board continues to unanimously recommend that Calliden shareholders vote in favour of the Scheme, in the absence of a superior proposal, at the upcoming Scheme Meeting to be held at **10.00am (Sydney time) on 8 December 2014** at the Royal Automobile Club of Australia, 89 Macquarie Street, Sydney.

The reasons for the Directors' recommendation are set out in detail in the Scheme Booklet.

If you have any questions about the Scheme, please contact the Calliden Shareholder Information Line (Monday to Friday between 9.00am to 5.00pm (Sydney time)) on:

- 1300 362 398 (from within Australia); or
- 61 2 8355 1004 (from outside Australia).

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About Calliden Group

Calliden is an ASX listed insurance Group specialising in general insurance which has been operating in the Australian market since 2005. Calliden delivers a choice of commercial, personal and specialist insurance options to intermediaries, third party agents and policyholders. Visit www.calliden.com.au for further information.

- ENDS -

calliden
group

Scheme Booklet

In relation to a proposal from Steadfast Group Ltd ACN 073 659 677 to acquire all of the ordinary shares in Calliden Group Limited by way of a members' scheme of arrangement.

The Scheme Meeting to consider the proposal is to be held at 10.00am on 8 December 2014 at the Royal Automobile Club of Australia, 89 Macquarie Street, Sydney.
A Notice of Scheme Meeting is included as Annexure E to this Scheme Booklet and a Proxy Form for the Scheme Meeting accompanies this Scheme Booklet.

Your Directors unanimously recommend that you **VOTE IN FAVOUR of the Scheme** in the absence of a Superior Proposal.

Each Calliden Director intends to vote the Calliden Shares they either own or control in favour of the Scheme in the absence of a Superior Proposal.

This is an important document and requires your immediate attention.

You should read it in its entirety before you decide whether or not to vote in favour of the Scheme. If you are in doubt as to what you should do, you should consult your legal, financial, investment, taxation or other professional adviser.

Legal Adviser



Financial Adviser



IMPORTANT NOTICES

PURPOSE OF SCHEME BOOKLET

This Scheme Booklet includes the explanatory statement for the Scheme required by section 412(1) of the Corporations Act.

A copy of the proposed Scheme is included in this Scheme Booklet as Annexure C.

The purpose of this Scheme Booklet is to provide information to the Calliden Shareholders about the terms of the Scheme and the manner in which the Scheme will be considered and implemented (if all Conditions Precedent are either satisfied or waived and the Scheme is approved by the Requisite Majority of Calliden Shareholders) and to provide information as is prescribed or otherwise material to the decision of the Calliden Shareholders whether or not to vote in favour of the Scheme.

You should read this booklet in its entirety before making a decision as to how to vote.

If you have sold all of your Calliden Shares, please ignore this Scheme Booklet.

NO INVESTMENT ADVICE

This Scheme Booklet and the recommendations contained in it should not be taken as, and do not constitute, personal financial advice. In preparing this Scheme Booklet, Calliden has not taken into account the objectives, financial situation or needs of individual Calliden Shareholders. It is important that you consider the information in this Scheme Booklet in light of your particular circumstances. You should seek your own independent professional advice regarding your particular circumstances and the Scheme if you are uncertain as to how to vote on the Scheme.

IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE CORPORATIONS ACT

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has approved the explanatory statement required to accompany the notice of the meeting does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme or as to how Calliden Shareholders should vote (on this matter Calliden Shareholders must reach their own decision); or
- has prepared, or is responsible for the content of, the explanatory statement.

ASIC AND ASX INVOLVEMENT

A copy of this Scheme Booklet has been reviewed by ASIC for examination in accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC for registration under section 412(6) of the Corporations Act. The Scheme Booklet was then registered by ASIC under section 412(6) of the Corporations Act before being sent to Calliden Shareholders.

ASIC has been 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 time of the Second Court Hearing to approve the Scheme.

A copy of this Scheme Booklet has been lodged with ASX.

Neither ASIC, or ASX nor any of their respective officers take any responsibility for the contents of this Scheme Booklet.

FORWARD LOOKING STATEMENTS

Certain statements in this Scheme Booklet may be in the nature of forward looking statements. These statements can be identified by the use of words such as "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "predict", "guidance", "plan" and other similar expressions.

Preparation of these forward looking statements was undertaken with due care and attention, however these statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements to be materially different from expected future results, performance or achievements expressed or implied by those statements. These risks, uncertainties, assumptions and other important factors include, among other things, the risks set out in section 8. These statements reflect only views held as at the date of this Scheme Booklet.

Other than as required by law, none of Calliden, Steadfast, Munich Re or MHA, their respective subsidiaries or their respective directors, officers, advisers or employees, any persons named in this Scheme Booklet with their consent, or any person involved in the preparation of this Scheme Booklet, makes any representation, warranty, assurance or guarantee that the events either expressed or implied in any forward looking statements in this Scheme Booklet will actually occur and Calliden Shareholders are cautioned not to place undue reliance on such forward looking statements.

Subject to any continuing obligations under law or the ASX Listing Rules, Calliden and the Calliden Directors disclaim any obligation or undertaking to disseminate after the date of this Scheme Booklet any updates or revisions to any forward looking statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

RESPONSIBILITY STATEMENTS

Calliden has been solely responsible for preparing this Scheme Booklet and Steadfast, Munich Re and MHA and their respective directors, officers, advisers and employees do not assume any responsibility for the accuracy or completeness of this Scheme Booklet, except that:

- Steadfast has been solely responsible for preparing the Steadfast Information. Calliden, Munich Re, MHA and their respective directors, officers, advisers and employees do not assume any responsibility for either the accuracy or completeness of the Steadfast Information.
- MHA has been solely responsible for preparing the MHA Group Information. None of Calliden, Steadfast or their respective directors, officers, advisers and employees assumes any responsibility for either the accuracy or completeness of the MHA Group Information.
- Lonergan Edwards has prepared the Independent Expert's Report in relation to the Scheme contained in Annexure A to this Scheme Booklet and takes responsibility for that report.
- Hall & Wilcox has prepared the information on the taxation implications of the Scheme contained in section 7 of this Scheme Booklet and takes responsibility for that information.

FOREIGN JURISDICTIONS

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions, and persons outside Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have

been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside of Australia.

TAX IMPLICATIONS OF THE SCHEME

Section 7 of this Scheme Booklet provides a general outline of the Australian income tax consequences for Scheme Shareholders who dispose of their Calliden Shares to Steadfast in accordance with the Scheme. It does not purport to be a complete analysis or to identify all potential tax consequences nor is it intended to replace the need for specialist tax advice in respect of the particular circumstances of individual Scheme Shareholders.

Calliden Shareholders who are subject to taxation outside Australia should also consult their tax adviser as to the applicable tax consequences of the Scheme in the relevant jurisdiction.

PRIVACY

Calliden and Steadfast may collect personal information in the process of implementing the Scheme. This information may include the names, contact details and security holdings of Calliden Shareholders and the names of persons appointed by Calliden Shareholders to act as proxy, attorney or corporate representative at the Scheme Meeting.

The primary purpose of collecting this information is to assist Calliden and Steadfast to conduct the Scheme Meeting and to implement the Scheme. Without this information, Calliden may be hindered in its ability to issue this Scheme Booklet and Calliden and Steadfast may be hindered in their ability to implement the Scheme. Personal information of the type described above may be disclosed to the Calliden Share Registry, Steadfast, print and mail service providers, authorised securities brokers and Related Bodies Corporate of Calliden and Steadfast.

If you would like to obtain details of information about you held by Calliden, please contact the Calliden Share Registry, Computershare Investor Services Pty Limited by either email on privacy@computershare.com.au or in writing: The Privacy Officer, Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067.

Calliden Shareholders who appoint a person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

NOTICE OF SCHEME MEETING

The Notice of Scheme Meeting is set out in Annexure E.

DEFINED TERMS

Capitalised terms used in this Scheme Booklet are defined in the Glossary (Section 10).

Each of the documents reproduced in an annexure to this Scheme Booklet has its own defined terms, which are sometimes different from those in the Glossary.

Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Scheme Booklet. All numbers are rounded to the nearest whole number unless otherwise indicated.

The financial amounts in this Scheme Booklet are expressed in Australian currency unless otherwise stated. A reference to \$, A\$, AUD and cents is to Australian currency, unless otherwise stated.

All times referred to in this Scheme Booklet are references to times in Sydney, New South Wales, unless otherwise stated.

DATE

This Scheme Booklet is dated 31 October 2014.

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IMPORTANT DATES

Event	Date
Latest time and date for receipt of Proxy Forms by the Calliden Share Registry for the Scheme Meeting	10.00am on 6 December 2014
Voting Entitlement Time (time and date for determining eligibility to vote at the Scheme Meeting)	7.00pm on 6 December 2014
Scheme Meeting to be held at the Royal Automobile Club of Australia, 89 Macquarie Street, Sydney	10.00am on 8 December 2014
Second Court Date for approval of the Scheme	11 December 2014
Outcome of Second Court Date announced to ASX	11 December 2014
Effective Date Court order lodged with ASIC and Scheme takes effect. Trading in Calliden Shares expected to be suspended from close of trading	12 December 2014
Special Dividend Record Date (for determining entitlements to Special Dividend)	7.00pm on 17 December 2014
Scheme Record Date (for determining entitlements to Scheme Consideration)	7.00pm on 19 December 2014
Special Dividend Payment Date	19 December 2014
Implementation Date Implementation of Scheme including payment of Scheme Consideration and completion of the sale and transfer of the On-Sale Business under the Share and Business Acquisition Agreement	23 December 2014

All of the dates stated above and throughout this Scheme Booklet are indicative only and, among other things, are subject to all necessary approvals from the Court and ASX. Any changes to the above timetable will be announced by Calliden on ASX and published on Calliden's website (www.calliden.com.au).

LETTER FROM THE CHAIRMAN OF CALLIDEN

31 October 2014

Dear Calliden Shareholder

As you may be aware, Calliden announced on 27 August 2014 that it had entered into a Scheme Implementation Deed with Steadfast to implement a proposal for Steadfast to acquire all of the ordinary shares in Calliden by way of a members' scheme of arrangement. Separately on 27 August 2014, Steadfast also entered into a binding agreement with Munich Holdings of Australasia Pty Limited, a subsidiary of Munich Re, for the on-sale of Calliden Insurance Limited (a wholly owned subsidiary of Calliden) and some of the agency portfolio businesses immediately after the Scheme has been approved and implemented.

Under the Scheme Implementation Deed, if all Conditions Precedent are either satisfied or waived (as applicable) and the Scheme is approved and implemented, Scheme Shareholders (who were also on the Register on the Special Dividend Record Date) will receive Total Entitlements of \$0.465 for each Calliden Share, comprising the Scheme Consideration being a cash payment (to be paid by Steadfast) of \$0.415 for each Calliden Share and a Special Dividend (to be paid by Calliden) of \$0.05 for each Calliden Share, which is currently expected to be fully franked.

Based on the closing price of Calliden Shares on the day prior to the date of the ASX announcement on 27 August 2014, the Total Entitlements represent a premium of:

- 34.8% to the closing price of \$0.345 on 26 August 2014;
- 29.6% to the volume weighted average price during the 30 days up to and including 26 August 2014; and
- 29.9% to the volume weighted average price during the 90 days up to and including 26 August 2014.

After long and careful consideration, the Calliden Board has decided to unanimously recommend that Calliden Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal. Subject to the same qualification, each Calliden Director intends to vote all of the ordinary shares either owned or controlled by them in favour of the Scheme.

Your Directors have commissioned Lonergan Edwards to prepare an Independent Expert's Report on the Scheme. The Independent Expert has assessed the full underlying value of the Calliden Shares to be in the range of \$0.457 to \$0.511 for each Calliden Share, and has concluded that the Scheme is fair and reasonable and in the best interests of Calliden Shareholders, in the absence of a Superior Proposal. The full report of the Independent Expert is set out in Annexure A to this Scheme Booklet.

The Scheme requires the approval of Calliden Shareholders and the Federal Court of Australia.

The Scheme is also subject to certain other Conditions Precedent (which include third party approvals) as described in section 2.7(a).

Some of the reasons to vote in favour of the Scheme are set out in detail in section 1.1. There are also reasons why you may choose to vote against the Scheme, some of which are set out in section 1.2.

If the Scheme is not approved and implemented, Calliden will continue as an independent entity listed on ASX and Calliden Shareholders will receive neither the Scheme Consideration of \$0.415 in cash for each Calliden Share nor the Special Dividend of \$0.05 for each Calliden Share. If the Scheme does not proceed, and no Superior Proposal emerges, the Calliden Directors consider that the market price of Calliden Shares is likely to fall.

Your vote is important and I strongly encourage you to vote on this significant transaction. You may vote by attending the Scheme Meeting to be held on 8 December 2014 at the Royal Automobile Club of Australia, 89 Macquarie Street, Sydney, commencing at 10.00am, or by appointing a proxy, attorney or corporate representative to attend the Scheme Meeting and vote on your behalf. A Proxy Form is provided with this Scheme Booklet.

I encourage you to read this Scheme Booklet carefully in its entirety, as it contains important information that will need to be considered before you vote on the Scheme Resolution required to implement the Scheme. I also encourage you to seek independent legal, financial, investment, taxation or other professional advice before making an investment decision in relation to your Calliden Shares.

If you have any questions about the Scheme, please contact the Calliden Shareholder Information Line on 1300 362 398 (from within Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time), or contact your legal, financial, investment, taxation or other professional adviser.

On behalf of your Directors, I would like to take this opportunity to thank you again for your ongoing support of Calliden. Your Directors consider that the proposed transaction with Steadfast makes strong commercial and strategic sense and is in the best interests of Calliden Shareholders. I look forward to your participation in the Scheme Meeting.

Yours sincerely



Richard Hill
Chairman






SOME REASONS TO VOTE IN FAVOUR OF THE SCHEME

✓	The Calliden Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal.
✓	The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Calliden Shareholders, in the absence of a Superior Proposal.
✓	Calliden Shareholders will be paid a \$0.05 Special Dividend (expected to be fully franked ¹) if the Scheme is approved and implemented.
✓	The Scheme Consideration of \$0.415, taken together with the Special Dividend of \$0.05, provides a reasonable premium ² for your Calliden Shares.
✓	No Superior Proposal has emerged as at the date of this Scheme Booklet.
✓	If the Scheme does not become Effective and no Superior Proposal emerges, the market price of Calliden Shares is likely to fall.
✓	If the Scheme does not proceed, and no Superior Proposal emerges, Calliden Shareholders will continue to be subject to the specific risks associated with Calliden's business and other general risks.
✓	No brokerage or stamp duty is payable on the transfer of your Calliden Shares under the Scheme.

1 The value of franking credits will vary depending on Calliden Shareholders' individual tax position. You should seek independent professional advice about your ability to use franking credits and the value of any franking credits to you.

2 The Scheme Consideration together with the Special Dividend reflects a 34.8% premium to the closing price of Calliden Shares on 26 August 2014 (being the last trading day before the Transaction was announced).

SOME REASONS TO VOTE AGAINST THE SCHEME

	You may disagree with the Calliden Directors' recommendation or the conclusion of the Independent Expert.
	If the Scheme is approved and implemented, you will no longer be a Calliden Shareholder and you will not receive any future dividends, nor will you participate in any potential upside that may result from being a Calliden Shareholder.
	You may consider that there is the potential for a Superior Proposal to emerge.
	The tax consequences of transferring your Calliden Shares pursuant to the Scheme may not be suitable to your financial position.
	If the Scheme is approved and implemented, Calliden Shareholders will no longer benefit from Calliden's current favourable tax position, which may include the ability to utilise tax losses and the remaining franking credit balance following payment of the Special Dividend.

Section 1 provides further detail on some of the reasons to vote in favour and some of the reasons why you may consider voting against the Scheme, which you may wish to take into account before deciding how to vote.

FREQUENTLY ASKED QUESTIONS

This Scheme Booklet contains detailed information regarding the Scheme.

This section provides summary answers to some questions that Calliden Shareholders may have in relation to the Scheme and should be read together with all other sections of the Scheme Booklet.

Question	Answer	More information
Background		
What is the Scheme?	The Scheme is a members' scheme of arrangement under the Corporations Act between Calliden and Scheme Shareholders. If the Scheme is approved and implemented, Steadfast will acquire 100% of the Calliden Shares and each Scheme Shareholder will receive Scheme Consideration of \$0.415 (as a cash payment) for each Scheme Share plus the Special Dividend of \$0.05 for each Calliden Share held at the Special Dividend Record Date.	Section 2 contains a summary of the Scheme and a copy of the Scheme is contained in Annexure C.
What is the On-Sale Business and how does it relate to the Scheme?	<p>On 27 August 2014, Steadfast and MHA entered into the Share and Business Acquisition Agreement under which Steadfast and MHA have agreed that, if the Scheme is approved and implemented, Steadfast will procure that the On-Sale Business will be sold to the MHA Purchasers, and MHA will procure that the MHA Purchasers will buy the On-Sale Business. It is contemplated that, subject to the terms of the Share and Business Acquisition Agreement, completion of the sale and purchase of the On-Sale Business will occur immediately after the Scheme has been implemented.</p> <p>It is contemplated that prior to the Second Court Date, Steadfast and MHA will enter into a Transitional Services Agreement which will apply for 24 months (or as otherwise agreed in writing) following completion of the on-sale to govern the separation of the On-Sale Business and the businesses that are to remain with Steadfast, including taking reasonable steps to ensure that shared services (including claims, finance and IT) can continue to support both the general insurance and agency operations. The transitional arrangement will also cover the existing office leases in North Sydney and Melbourne.</p>	Further information about the On-Sale Business is set out in sections 2.8(c) and 5.6.
Who is Steadfast?	Steadfast, established in 1996, is a broker network and provider of services to 306 insurance broker businesses across Australia, New Zealand and Singapore. Steadfast is the largest general insurance broker network in Australasia. Its network of brokers and underwriting agencies generated annual billings of over \$5 billion in 2014. This network produces almost half of Calliden's gross written premium. Steadfast also operates as a consolidator through its equity interests in a number of insurance broker businesses, a reinsurance broker, underwriting agencies, other complementary businesses and a joint venture in Macquarie Pacific Funding.	Please refer to section 5 and Steadfast's website (www.steadfast.com.au) for more information about Steadfast.
Who is MHA?	Munich Holdings of Australasia Pty Limited is wholly owned by Munich Re. Munich Re is incorporated in Germany and is one of the largest insurance and reinsurance groups in the world. The MHA Group provides a substantial portion of Calliden's reinsurance. The MHA Group also provides insurance capacity to Calliden's Business Pack and Commercial Agencies Businesses as well as ARGIS Insurance, which contribute almost half of the underwriting agency business written by Calliden.	Please refer to section 6 for more information about MHA.

Question	Answer	More information
Recommendations and reasons why you may vote for or against the Scheme		
What does the Calliden Board recommend?	The Calliden Directors unanimously recommend that Calliden Shareholders vote in favour of the Scheme at the Scheme Meeting, in the absence of a Superior Proposal.	Further information about the reasons to vote in favour of, or against, the Scheme is set out in section 1.
What are the intentions of your Directors?	Each of the Calliden Directors intends to vote (or procure the voting of) all Calliden Shares owned or controlled by them in favour of the Scheme at the Scheme Meeting, in the absence of a Superior Proposal.	Details of the relevant interest of each Calliden Director in Calliden Shares are set out in section 9.2.
What is the opinion of the Independent Expert?	<p>Loneragan Edwards, as Independent Expert, has concluded that the Scheme is fair and reasonable and in the best interests of Calliden Shareholders, in the absence of a Superior Proposal.</p> <p>The Independent Expert has assessed the full underlying value of the Calliden Shares to be in the range of \$0.457 to \$0.511 for each Calliden Share.</p>	Annexure A contains the Independent Expert's Report.
Why should Calliden Shareholders vote in favour of the Scheme?	<p>Reasons why you should vote in favour of the Scheme include:</p> <ul style="list-style-type: none"> • your Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal; • the Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Calliden Shareholders, in the absence of a Superior Proposal; • if the Scheme is approved and implemented, Calliden Shareholders will be paid a Special Dividend of \$0.05 for each Calliden Share held on the Special Dividend Record Date, which is currently expected to be fully franked; • the Scheme Consideration of \$0.415 plus the Special Dividend of \$0.05 for each Calliden Share represents a reasonable premium for your Calliden Shares of 34.8% to the closing price of \$0.345 on 26 August 2014; • no Superior Proposal has emerged as at the date of this Scheme Booklet; • if the Scheme does not become Effective, and no Superior Proposal emerges, the market price of Calliden Shares is likely to fall; • if the Scheme does not become Effective, and no Superior Proposal emerges, Calliden Shareholders will continue to be subject to the specific risks associated with Calliden's business and other general risks; and • no brokerage or stamp duty is payable on the transfer of your Calliden Shares under the Scheme. 	Section 1.1 contains further information on why you should vote in favour of the Scheme.

FREQUENTLY ASKED QUESTIONS

(continued)

Question	Answer	More information
Why you may consider voting against the Scheme	<p>Reasons why you may consider voting against the Scheme include:</p> <ul style="list-style-type: none"> • you may disagree with the recommendation of your Directors or the conclusion of the Independent Expert; • if the Scheme is approved and implemented, you will no longer be a Calliden Shareholder and you will not receive any future dividends, nor will you participate in any potential upside that may result from being a Calliden Shareholder; • you may consider that there is the potential for a Superior Proposal to emerge; • the tax consequences of transferring your Calliden Shares pursuant to the Scheme may not be suitable to your financial position; and • if the Scheme is approved and implemented, Calliden Shareholders will no longer benefit from Calliden's current favourable tax position, which may include the ability to utilise tax losses and the remaining franking credit balance following payment of the Special Dividend. 	Section 1.2 contains further information on why you may consider voting against the Scheme.
What will happen if the Scheme does not proceed?	<p>If the Scheme does not proceed, the Scheme Consideration and the Special Dividend will not be paid and Calliden will continue to be listed on ASX. Calliden Shareholders will retain their Calliden Shares and continue to share in any benefits and risks of Calliden's ongoing business.</p> <p>In addition, if the Scheme does not proceed, the price of Calliden Shares is likely to fall. In those circumstances, you will retain your Calliden Shares and be exposed to the risks set out in section 8. You should also have regard to the outlook of Calliden Group which is more fully described in section 4.10.</p> <p>Your rights as a Calliden Shareholder will remain unchanged.</p> <p>Calliden will be liable to pay for all costs and expenses it incurs in relation to the Scheme, such as printing costs and advisers' fees, whether or not the Scheme proceeds. If the Scheme does proceed, Calliden is expected to incur costs which amount to approximately \$2 million. If the Scheme does not proceed, it is expected that these costs will be approximately \$1 million.</p> <p>If Calliden Shareholders do not vote in favour of the Scheme Resolution, and the Calliden Directors have not withdrawn their recommendation that Calliden Shareholders vote in favour of the Scheme, the reimbursement fee described in section 2.7(c) will not be payable to Steadfast. However, this reimbursement fee may be payable if any Calliden Director withdraws or changes his recommendation, depending on the circumstances. A detailed summary of the reimbursement fee arrangements between Steadfast and Calliden is contained in section 2.7(c).</p>	

Question	Answer	More information
Entitlements under the Scheme		
What are the Total Entitlements?	The Total Entitlements are \$0.465, being the Scheme Consideration of \$0.415 payable in cash by Steadfast and the Special Dividend of \$0.05 payable by Calliden, which is currently expected to be fully franked.	Section 2.5 contains further information about entitlements under the Scheme.
Am I entitled to receive the Scheme Consideration and the Special Dividend?	Calliden Shareholders as at the Scheme Record Date (currently expected to be 19 December 2014) will be 'Scheme Shareholders' and will be entitled to receive the Scheme Consideration for each Scheme Share held. Calliden Shareholders as at the Special Dividend Record Date (currently expected to be 17 December 2014) will be entitled to receive the Special Dividend of \$0.05 for each Calliden Share held.	Section 2.5 contains further information about entitlements under the Scheme.
When and how will I receive my Scheme Consideration and the Special Dividend?	<p>It is expected that Calliden Shareholders will be paid the Scheme Consideration on the Implementation Date (which is currently expected to be 23 December 2014). The Special Dividend is currently expected to be paid on 19 December 2014.</p> <p>The Scheme Consideration and the Special Dividend will be paid to Scheme Shareholders and Calliden Shareholders respectively:</p> <ul style="list-style-type: none"> • if you have, before 5.00pm on the Scheme Record Date or the Special Dividend Record Date (as applicable), made a valid election in accordance with the requirements of Calliden's Share Registry to receive dividend or other payments from Calliden by electronic funds transfer to a nominated bank account, by paying, or procuring the payment of, the relevant amount of the Scheme Consideration and Special Dividend in Australian currency by electronic means in accordance with that election; or otherwise • by dispatching, or procuring the dispatch of, a cheque for the relevant amount of the Scheme Consideration and Special Dividend (as applicable) in Australian currency by prepaid post to your registered address as set out in the Register as at 7.00pm on the Scheme Record Date or the Special Dividend Record Date (as applicable). 	See section 2.5 for further information.
How will the Scheme Consideration be funded?	<p>Steadfast is required to pay 100% of the Scheme Consideration to Scheme Shareholders. Based on the 226,683,914 Calliden Shares on issue, the amount of cash payable by Steadfast to Scheme Shareholders (if the Scheme is approved and implemented) will be approximately \$94.1 million.</p> <p>Steadfast intends to fund the Scheme Consideration by applying the loan amount advanced to Steadfast by MHA under the MHA Loan Agreement and by drawing on external debt financing. Subject to certain terms and conditions (described in section 2.9(c)), the total amount of debt finance when aggregated with the loan amount Steadfast will receive from MHA, will be sufficient for Steadfast to pay 100% of the Scheme Consideration to Scheme Shareholders in accordance with the terms of the Scheme.</p>	Section 2.9 contains further information about how the Scheme Consideration will be funded.

FREQUENTLY ASKED QUESTIONS

(continued)

Question	Answer	More information
Voting		
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held at the Royal Automobile Club of Australia, 89 Macquarie Street, Sydney at 10.00am (Sydney time) on 8 December 2014.	The Notice of Scheme Meeting contained in Annexure E sets out further information on the Scheme Meeting.
Am I entitled to vote at the Scheme Meeting?	If you are registered as a Calliden Shareholder in the Register at the Voting Entitlement Time (being 7.00pm on 6 December 2014) you will be entitled to vote at the Scheme Meeting. Calliden Shareholders entitled to vote on the Scheme Resolution may vote in person, by proxy, by attorney or, in the case of a body corporate, by a duly appointed corporate representative.	Section 3 contains further information about the Scheme Meeting and voting entitlements.
What vote is required to approve the Scheme?	More than 50% of those Calliden Shareholders present at the Scheme Meeting (in person or by proxy) must vote in favour of the Scheme and at least 75% of the total votes cast at the Scheme Meeting must be in favour of the Scheme.	Section 3 contains further information about the Scheme Meeting and voting entitlements.
Should I vote?	Voting is not compulsory. However, your vote is important in determining whether the Scheme will become Effective. If you cannot attend the Scheme Meeting you should complete and return the Proxy Form enclosed with this Scheme Booklet.	Further information about how to vote is contained in section 3.
How can I vote if I can't attend the Scheme Meeting?	If you would like to vote at the Scheme Meeting but cannot attend, you can vote by appointing a proxy or attorney to attend and vote on your behalf. If applicable, you may also vote by corporate representative.	Further information about voting by proxy or attorney is contained in section 3.
What if I hold Unvested Incentive Rights?	If the Scheme becomes Effective, the Calliden Directors have determined that vesting of the Unvested Incentive Rights as at the Effective Date will be accelerated, necessary changes will be made to the vesting conditions associated with the Unvested Incentive Rights and existing Calliden Shares will be allocated to the relevant LTI Plan participants on or soon after the Effective Date (but before the Scheme Record Date and the Special Dividend Record Date). This means that those LTI Plan participants who are allocated existing Calliden Shares in respect of their Unvested Incentive Rights will become Scheme Shareholders and be entitled to the Scheme Consideration and the Special Dividend. Calliden will not issue new Calliden Shares to LTI Plan participants.	Further information about the impact of the Scheme on Calliden's employee incentive plans is set out in section 2.6.
When will the results of the Scheme Meeting be known?	The results of the Scheme Meeting will be declared at the Scheme Meeting and will be notified to ASX and made available on the Calliden website (www.calliden.com.au) shortly after the conclusion of the Scheme Meeting.	

Question	Answer	More information
What happens to my Calliden Shares if I do not vote, or if I vote against the Scheme and the Scheme becomes Effective?	If you do not vote, or vote against the Scheme, then it may not be approved and the Scheme will not proceed. However, even if you do not vote or vote against the Scheme, this does not mean that the Scheme will not be approved. If the Scheme is approved by the Requisite Majority of Calliden Shareholders and by the Court, and all of the Conditions Precedent are satisfied or waived (as applicable), the Scheme will be implemented, your Calliden Shares will be transferred to Steadfast and you will receive the Scheme Consideration for your Calliden Shares and the Special Dividend, regardless of whether you voted against the Scheme (or did not vote at all).	Further information about what will happen if the Scheme does not proceed is contained in section 2.12.
Other		
What is required for the Scheme to become Effective?	The Scheme will become Effective if: <ul style="list-style-type: none"> the Scheme is approved by the Requisite Majority of Calliden Shareholders at the Scheme Meeting to be held on 8 December 2014; the Court approves the Scheme at the Second Court Hearing; and all of the other Conditions Precedent are either satisfied or waived (as applicable). 	Sections 2.7(a) and 3.1 contains further information about the Scheme approval requirements.
What are the Conditions Precedent?	The implementation of the Scheme is subject to a number of conditions, as summarised in section 2.7(a) of this Scheme Booklet.	
In what circumstances might the Scheme not proceed?	If one or more of the Conditions Precedent are not either satisfied or waived, or the Scheme Implementation Deed is otherwise terminated, the Scheme will not proceed.	Further information about the Scheme approval requirements is set out in sections 2.7(a) and 3.1. Information about the circumstances in which the Scheme Implementation Deed can be terminated is set out in section 2.7(g).
Have all required regulatory approvals been obtained?	Implementation of the Scheme is subject to approvals, consents and authorisations from various Regulatory Authorities such as the ACCC, APRA and FIRB having been received. Further information about these regulatory approvals and other Conditions Precedent to the Scheme is set out in section 2.7(a). The parties have applied to the ACCC, APRA and FIRB for approval, consent, authorisation or confirmation of no objection (as the case may be). All required regulatory approvals have been obtained.	Further information about the regulatory approvals required for the Scheme can be found in sections 2.7(a), 4.9, 5.5 and 6.4.

FREQUENTLY ASKED QUESTIONS

(continued)

Question	Answer	More information
When will the Scheme become Effective?	Subject to all of the Conditions Precedent being satisfied or waived (as applicable), the Scheme being approved by the Requisite Majority of Calliden Shareholders and the Court approving the Scheme at the Second Court Hearing, the Scheme will become Effective on the Effective Date (which is currently expected to be 12 December 2014).	
What happens if a Competing Transaction is received?	If a Competing Transaction emerges, Calliden Directors will carefully consider the proposal, review their recommendation in relation to the Scheme and advise you of any decision via an announcement to ASX.	
Can I sell my Calliden Shares now?	Yes, Calliden Shareholders may sell their Calliden Shares on ASX at any time prior to the suspension of trading in Calliden Shares on ASX (should the Scheme proceed), if they do not wish to hold them and participate in the Scheme. Trading in Calliden Shares is currently expected to be suspended at the close of trading on ASX on the Effective Date. It is expected that quotation of Calliden Shares will cease and Calliden will be removed from the official list by the next trading day on ASX after implementation of the Scheme.	
Do I need to sign anything to transfer my Calliden Shares?	You will only be required to sign something if you would like to appoint a proxy or attorney to attend the Scheme Meeting and vote on your behalf. Otherwise, if the Scheme is approved and implemented, your Calliden Shares will be transferred to Steadfast under the Scheme without you having to sign anything.	
What costs has Calliden incurred in relation to the Scheme?	As at 30 October 2014, Calliden has incurred costs of approximately \$750,000 and currently expects to incur further costs of approximately \$250,000 up to and including the Second Court Hearing.	
When could Calliden be required to reimburse Steadfast's costs?	Under the Scheme Implementation Deed, Calliden has agreed to pay a reimbursement fee to Steadfast (in aggregate of \$900,000) if certain events occur, including in relation to certain breaches of the Scheme Implementation Deed, the announcement and completion of a Competing Transaction (within 11 months after the date of the Scheme Implementation Deed), the announcement by the Calliden Board that a Competing Transaction is a Superior Proposal, or a withdrawal or change in recommendation by the Calliden Board.	See section 2.7(c) for further information about the reimbursement fee.

Question	Answer	More information
What are the taxation implications of the Scheme?	<p>Scheme Shareholders should seek independent advice regarding the taxation consequences of transferring their Calliden Shares to Steadfast in accordance with the Scheme. Calliden has applied for a Class Ruling from the ATO in respect of a number of taxation implications for Scheme Shareholders who are resident in Australia in respect of the Scheme and the payment of the Special Dividend. Scheme Shareholders should follow the ATO's Class Ruling once it is published on the ATO's website (www.ato.gov.au).</p> <p>Section 7 of this Scheme Booklet provides a general outline of the taxation consequences for Calliden Shareholders of transferring Calliden Shares to Steadfast under the Scheme. However, this is a guide only. It is not intended to provide taxation advice in respect of the particular circumstances of any Calliden Shareholder.</p>	Please refer to section 7 for further information about the taxation implications of the Scheme.
Will I have to pay brokerage fees or stamp duty?	No, you will not have to pay any brokerage or stamp duty on the disposal of your Calliden Shares under the Scheme.	
Where can I get further information about the Scheme?	<p>If you have any questions, please either email ir@calliden.com.au or consult your legal, financial, investment, taxation or other professional adviser.</p> <p>You may also contact the Calliden Shareholder Information Line on 1300 362 398 (from within Australia) or +61 2 8355 1004 (from outside Australia).</p>	

1. MATTERS RELEVANT TO YOUR VOTE ON THE SCHEME

1.1

Key reasons to vote in favour

- (a) **Your Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal**

For the reasons set out below, the Calliden Directors unanimously recommend that Calliden Shareholders vote in favour of the Scheme.

In reaching their recommendation, the Calliden Directors have assessed the Scheme having regard to the reasons to vote in favour of, or against, the Scheme, as set out in this Scheme Booklet.

The Calliden Directors will each vote the voting rights attached to all Calliden Shares which they own or over which they otherwise have control in favour of the Scheme, in the absence of a Superior Proposal.

The trustee for the LTI Plan will vote the voting rights attached to all Calliden Shares which it holds in favour of the Scheme, in the absence of a Superior Proposal.

Further details about the interests of the Calliden Directors in Calliden Shares are set out in section 9.2.

- (b) **The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Calliden Shareholders, in the absence of a Superior Proposal**

The Calliden Board appointed the Independent Expert to prepare an independent assessment of the Scheme.

The Independent Expert has assessed the full underlying value of the Calliden Shares to be in the range of \$0.457 to \$0.511 for each Calliden Share. The Total Entitlements of \$0.465 for each Calliden Share is within that range. Therefore, the Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Calliden Shareholders, in the absence of a Superior Proposal.

In reaching this conclusion, the Independent Expert has expressed the view that the value of the Total Entitlements of \$0.465 for each Calliden Share is above the low end of the assessed value for Calliden Shares on a 100% controlling interest basis.

A full copy of the Independent Expert's Report is set out in Annexure A. You should read this report carefully before making a decision as to whether or not to vote in favour of the Scheme.

- (c) **Calliden Shareholders will be paid a \$0.05 Special Dividend (currently expected to be fully franked) if the Scheme is approved and implemented**

If the Scheme is approved and implemented, Calliden Shareholders who are registered in the Register as a holder of Calliden Shares on the Special Dividend Record Date (17 December 2014), will be paid a \$0.05 Special Dividend for each Calliden Share held on the Special Dividend Record Date. It is currently expected that eligible Calliden Shareholders will be paid the Special Dividend on 19 December 2014. The Special Dividend is currently expected to be fully franked.

You should read section 7 of this Scheme Booklet which contains details of the taxation treatment of this Special Dividend.

If the Scheme is not approved, the Special Dividend will not be paid.

- (d) **The Scheme Consideration of \$0.415, taken together with the Special Dividend, provides a reasonable premium for your Calliden Shares**

The Total Entitlements of \$0.465, represent a reasonable premium to Calliden's historical trading prices prior to the announcement of the Transaction.

The Total Entitlements of \$0.465 for each Calliden Share represents a multiple of 17.1 times the reported FY13 earnings per share of 2.7 cents for each Calliden Share and:

- a 34.8% premium to the closing price of Calliden Shares of \$0.345 on 26 August 2014 (being the last trading day prior to the announcement of the Transaction);
- a 29.6% premium to the 30 day volume weighted average price of Calliden Shares up to and including 26 August 2014 of \$0.3587; and
- a 29.9% premium to the 90 day volume weighted average price of Calliden Shares up to and including 26 August 2014 of \$0.3581.

The Independent Expert has expressed the view that the Total Entitlements represents a significant premium to the recent market prices of Calliden Shares prior to the announcement of the Transaction on 27 August 2014 and, furthermore, the premium is consistent with observed premiums generally paid to target company shareholders in comparable circumstances.



You may also benefit from up to 2.1 cents of franking credits attached to the Special Dividend for each Calliden Share. The ability to use franking credits and the precise post-tax value you will obtain will depend on your individual tax circumstances. Further information about the general taxation implications associated with this Transaction is set out in section 7. You should seek independent professional advice about the value and availability of franking credits in the context of your individual tax circumstances.

(e) No Superior Proposal has emerged as at the date of this Scheme Booklet

Since the announcement of the Scheme to ASX by Calliden on 27 August 2014 and up to the date of this Scheme Booklet, no Superior Proposal has emerged.

(f) If the Scheme does not proceed, and no Superior Proposal emerges, the market price of Calliden Shares is likely to fall

As at 30 October 2014, being the last practicable trading day prior to the date of this Scheme Booklet, the market price of Calliden Shares has risen by 34.8% following the announcement of the Transaction on 27 August 2014.

As there are many factors which affect the market price of Calliden Shares, the Calliden Directors are unable to predict the price at which Calliden Shares will trade in the future; however, your Directors consider that, in the absence of the implementation of the Scheme and in the absence of a Superior Proposal, or speculation regarding an alternative proposal, the market price of Calliden Shares is likely to fall below the current market price (although this is difficult to predict with any degree of certainty).

In this regard, the Independent Expert also noted that if the Scheme does not proceed, and in the absence of an alternative offer or proposal, Calliden Shares are likely to trade at a significant discount to the Independent Expert's valuation and the Total Entitlements due to the portfolio nature of individual shareholdings.

(g) If the Scheme does not proceed, and no Superior Proposal emerges, Calliden Shareholders will continue to be subject to the specific risks associated with Calliden's business and other general risks

As there are many factors which affect the market price of Calliden Shares, including the general business uncertainties associated with Calliden's outlook, general economic conditions and movements in the share market, the Calliden Directors are unable to predict the price at which Calliden Shares will trade in the future. However, the Calliden Directors consider that, in the absence of the implementation of the Scheme and in the absence of a Superior Proposal, or speculation regarding an alternative proposal, the market price of Calliden Shares is likely to fall below the current market price.

(h) No brokerage or stamp duty is payable on the transfer of your Calliden Shares under the Scheme

You should not incur brokerage or stamp duty costs in relation to the transfer of your Scheme Shares to Steadfast.

1. MATTERS RELEVANT TO YOUR VOTE ON THE SCHEME

(continued)

1.2

Key reasons why you may consider voting against the Scheme

(a) You may disagree with the Calliden Directors' recommendation or the conclusion of the Independent Expert

You may disagree with the recommendation of your Directors, who have unanimously recommended that Calliden Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal.

In addition or in the alternative, you may disagree with the conclusion of the Independent Expert, who has concluded that the Scheme is fair and reasonable and in the best interests of Calliden Shareholders, in the absence of a Superior Proposal.

You are not obliged to follow the unanimous recommendation of the Calliden Directors or agree with the Independent Expert's conclusion.

(b) If the Scheme is approved and implemented, you will no longer be a Calliden Shareholder and you will not receive any future dividends, nor will you participate in any potential upside that may result from being a Calliden Shareholder

If the Scheme is approved and implemented, you will cease to be a Calliden Shareholder. As such, you will no longer be able to participate in Calliden's future financial performance or the future prospects of its ongoing business, further details of which are set out in sections 1.2(e) and 4.10.

However, as with all investments in securities, there can be no guarantee as to Calliden's future performance.

If the Scheme is approved and implemented, Calliden will be removed from the official list of ASX. Following delisting, investors will no longer be able to acquire or trade in Calliden Shares on ASX.

(c) You may consider that there is the potential for a Superior Proposal to emerge

You may believe that there is a possibility that a Superior Proposal could emerge in the foreseeable future. Implementation of the Scheme will mean that existing Calliden Shareholders will not receive the benefit of any such proposal.

If an unsolicited Competing Transaction is received prior to the Scheme Meeting that would reasonably be, or would reasonably become, a Superior Proposal, this will be considered by the Calliden Board in accordance with its fiduciary

duties and subject to the provisions of the Scheme Implementation Deed, and the Calliden Board will review its recommendation in relation to the Scheme.

The Calliden Board will keep Calliden Shareholders fully informed if any Superior Proposal emerges before the Scheme Meeting and advise you of any decision via an announcement to ASX.

(d) The tax consequences of transferring your Calliden Shares pursuant to the Scheme may not be suitable to your financial position

If the Scheme becomes Effective, there may be tax consequences for Calliden Shareholders which may include tax being payable on any gain on disposal of Calliden Shares. A general guide to the taxation implications of the Scheme is set out in section 7 of this Scheme Booklet. This guide is expressed in general terms and individual Calliden Shareholders should seek their own independent professional advice regarding tax consequences applicable to their own circumstances.

(e) If the Scheme is approved and implemented, Calliden Shareholders would no longer benefit from Calliden's current favourable tax position, which may include the ability to utilise tax losses and the remaining franking credit balance following payment of the Special Dividend

As at the date of this Scheme Booklet, Calliden has a franking credit account balance of \$23.1 million. Following payment of the Special Dividend, it is currently expected that Calliden will have a franking credit account balance of \$18.2 million. Future profits could be distributed to Calliden Shareholders on a franked basis to the extent, and subject to the availability, of Calliden's franking credit account balance. The potential to access these future franked dividends may suit some Calliden Shareholders.

Calliden is able to reduce the amount of tax it is required to pay on future profits as a result of the availability of tax losses within the Calliden Group, however the availability of these tax losses going forward is subject to Calliden continuing to satisfy the 'continuity of ownership test' or the 'same business test', both as prescribed under applicable tax rules.

The above benefits will not be available to Calliden Shareholders if the Scheme is approved and implemented. Further information about Calliden's tax position and franking credit balance is set out in section 4.11.



1.3

Other considerations

(a) The Scheme may proceed even if you do not vote, or vote against it

You should be aware that even if you do not vote, or vote against the Scheme, the Scheme may still be implemented if it is approved by the Requisite Majority and the Court and all other Conditions Precedent are satisfied or waived (as applicable). If the Scheme is approved and implemented and you continue to hold Calliden Shares until the Scheme Record Date, your Calliden Shares will be transferred to Steadfast and you will receive the Scheme Consideration (and if you hold Calliden Shares on the Special Dividend Record Date, you will receive the Special Dividend) even though you did not vote on, or voted against, the Scheme.

(b) Conditions Precedent

The implementation of the Scheme is subject to a number of conditions, as summarised in section 2.7(a) of this Scheme Booklet and set out in full in Schedule 2 of the Scheme Implementation Deed (a copy of which is provided in Annexure B to this Scheme Booklet). If the Conditions Precedent are not satisfied or waived (as applicable), the Scheme will not proceed and Calliden Shareholders will not receive the Scheme Consideration.

(c) Deemed warranties

You should be aware that if the Scheme is approved and implemented, under the terms of the Scheme, Scheme Shareholders will be deemed to have warranted that all of their Scheme Shares (including any rights and entitlements attached to those Scheme Shares) are fully paid and free from all encumbrances and that they have full power and capacity to transfer those Scheme Shares. Please refer to clause 5.6 of the Scheme contained in Annexure C to this Scheme Booklet to read the warranties in full.

(d) Implications if the Scheme is not approved

If the Scheme is not approved by the Requisite Majority of Calliden Shareholders at the Scheme Meeting, or by the Court at the Second Court Hearing, or the other Conditions Precedent to the implementation of the Scheme outlined in section 2.7(a) are not satisfied or waived (as applicable):

- Calliden Shareholders will not receive the Scheme Consideration or the Special Dividend;

- Calliden Shares will not be transferred to Steadfast (they will instead be retained by Calliden Shareholders);
- Calliden will be liable to pay for all costs and expenses it has incurred in relation to the Scheme, such as printing costs and advisers' fees. These costs and expenses are expected to be approximately \$1 million;
- Calliden Shareholders will continue to be exposed to the benefits and risks associated with an investment in Calliden (see section 8 for further details of the risks); and
- in the absence of a Superior Proposal, or speculation regarding an alternative proposal, the price of Calliden Shares is likely to fall below the prevailing market price.

(e) Reimbursement fee

Calliden has agreed to pay a reimbursement fee of \$900,000 to Steadfast in certain circumstances. The details of the reimbursement fee arrangements are set out in section 2.7(c) of this Scheme Booklet.

(f) No-talk and no-shop obligations and matching rights

The Scheme Implementation Deed contains certain exclusivity provisions which restrict the ability of Calliden to enter into discussions with potential rival bidders and require Calliden to grant Steadfast certain rights in respect of matching any alternative offers, if they arise. Summaries of these arrangements are set out in section 2.7(b) of this Scheme Booklet.

Further details in relation to the Scheme are set out in section 2 of this Scheme Booklet.

2. DETAILS OF THE SCHEME

2.1 Background

On 27 August 2014, Calliden announced that it had entered into the Scheme Implementation Deed in relation to a proposal for the acquisition of 100% of the Calliden Shares by Steadfast, by way of a members' scheme of arrangement. At around the same time, Steadfast announced that it had entered into an agreement with MHA under which MHA would acquire the On-Sale Business if the Scheme is approved and implemented.

A summary of the key terms of the Scheme Implementation Deed can be found in section 2.7 and a complete copy of the Scheme Implementation Deed can be found in Annexure B. A summary of the Share and Business Acquisition Agreement in respect of the On-Sale Business can be found in section 2.8(c).

If the Scheme becomes Effective, Calliden will be delisted from ASX and will become a wholly owned subsidiary of Steadfast.

2.2 Your Directors' recommendation

The Calliden Board unanimously recommends that those Calliden Shareholders eligible to vote at the Scheme Meeting, vote in favour of the Scheme, in the absence of a Superior Proposal.

2.3 Voting intentions of your Directors

Each Calliden Director intends to vote in favour of the Scheme at the Scheme Meeting in relation to the Calliden Shares held or controlled by them personally, in the absence of a Superior Proposal.

Details of the relevant interests of each Calliden Director in Calliden Shares are set out in section 9.2.

2.4 Independent Expert's conclusion

The Calliden Board commissioned Lonergan Edwards as the Independent Expert to prepare an independent assessment of the Scheme.

The Independent Expert has assessed the full underlying value of the Total Entitlements on a 100% controlling basis to be in the range of \$0.457 and \$0.511 for each Calliden Share. The Total Entitlements to be received by Scheme Shareholders are within this range. Accordingly, the Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Calliden Shareholders, in the absence of a Superior Proposal.

The Independent Expert's Report is contained in Annexure A.

Your Directors encourage all Calliden Shareholders to read the Independent Expert's Report in full before deciding how to vote on the Scheme.

2.5 Entitlements under the Scheme

If the Scheme is approved and implemented and you are a Scheme Shareholder, your Calliden Shares will be transferred to Steadfast and you will receive Scheme Consideration of \$0.415 (as a cash payment) for each Scheme Share held at the Scheme Record Date plus the Special Dividend of \$0.05 for each Calliden Share held at the Special Dividend Record Date.

The Scheme Consideration will be paid by Steadfast. It is expected that Scheme Shareholders will be paid the Scheme Consideration on the Implementation Date, which is currently expected to be 23 December 2014.

If the Scheme becomes Effective, you will also become entitled to the Special Dividend if you are the holder of Calliden Shares on the Special Dividend Record Date.

The Special Dividend will be paid by Calliden. It is expected that eligible Calliden Shareholders will be paid the Special Dividend on 19 December 2014. The Special Dividend is currently expected to be fully franked.

Calliden has applied for a Class Ruling from the ATO in respect of a number of taxation implications for Scheme Shareholders who are resident in Australia in respect of the Scheme and the payment of the Special Dividend. These Scheme Shareholders should follow the ATO's Class Ruling once it is published on the ATO's website (www.ato.gov.au).



2.6

Impact of the Scheme on Calliden's employee incentive plans

Two types of Unvested Incentive Rights have been granted to LTI Plan participants under the LTI Plan:

- Retention Rights which vest based on, and subject to, completion of a period of service by employees of Calliden; and
- Performance Rights which vest based on, and subject to, achievement of specified performance objectives.

As at the date of this Scheme Booklet, there are 15,431,520 Unvested Incentive Rights.

If the Scheme becomes Effective, the Calliden Directors have determined that the vesting of Unvested Incentive Rights as at the Effective Date will be accelerated, necessary changes will be made to the vesting conditions associated with the Unvested Incentive Rights and the relevant number of existing Calliden Shares will be allocated to relevant LTI Plan participants on or soon after the Effective Date (but before the Scheme Record Date and the Special Dividend Record Date). This means that those LTI Plan participants who are allocated existing Calliden Shares in respect of their Unvested Incentive Rights will become Scheme Shareholders and if they continue to hold those Calliden Shares on the Scheme Record Date will be entitled to the Scheme Consideration (and if they hold those Calliden Shares on the Special Dividend Record Date, will also be entitled to the Special Dividend). Nothing in the LTI Plan Rules restricts the LTI Plan participants from participating in the Scheme or being entitled to the Scheme Consideration and the Special Dividend in accordance with the terms of the Scheme.

Upon the vesting of the Unvested Incentive Rights after the Effective Date, it is expected that 12,318,452 existing Calliden Shares will be allocated to the relevant LTI Plan participants (being the number of Calliden Shares determined in accordance with the LTI Plan Rules).

No new Calliden Shares will be issued to LTI Plan participants. Calliden will satisfy the requirement to allocate Calliden Shares to the relevant LTI Plan participants as set out above by directing the trustee of the LTI Plan to acquire the requisite number of Calliden Shares on market.

2.7

Key terms of the Scheme Implementation Deed

The Scheme Implementation Deed sets out the rights and obligations of Calliden and Steadfast in connection with the implementation of the Scheme. A summary of the key terms of the Scheme Implementation Deed is set out below.

(a) Conditions precedent to the Scheme

Implementation of the Scheme is subject to the following Conditions Precedent:

(i) Regulatory approvals

Before 8.00am on the Second Court Date:

- (A) all approvals, consents and authorisations required from ASIC and ASX to implement the Scheme having been received;
- (B) all approvals, consents and authorisations required from applicable Regulatory Authorities (such as the ACCC, APRA and FIRB) having been received in respect of:
 - the Scheme and the Share and Business Acquisition Agreement (and the transactions contemplated by those) under the *Financial Sector (Shareholdings) Act 1998* (Cth); and
 - all other consents, waivers and approvals of a Regulatory Authority which Steadfast and Calliden, acting reasonably, consider are necessary or desirable to implement the Scheme and the Share and Business Acquisition Agreement; and
- (C) no Court or Regulatory Authority having either issued or taken steps to issue an order, temporary restraining order, preliminary or permanent injunction, decree or ruling or having taken any action restraining or otherwise imposing a legal restraint or prohibition preventing the implementation of any material aspect of the Scheme and the transactions contemplated by it.

(ii) Third party consents

Consent to the Scheme either unconditionally or on terms reasonably satisfactory to Steadfast having been received from certain named contractual counter-parties in item 2 of Schedule 2 of the Scheme Implementation Deed or, where no consent is required under the terms of the relevant agreement, the relevant counterparty having not indicated in writing that it intends to terminate the agreement.

2. DETAILS OF THE SCHEME

(continued)

(iii) Independent Expert

The Independent Expert concludes in the Independent Expert's Report that the Scheme is in the best interest of the Calliden Shareholders.

(iv) Scheme approval

The Requisite Majority of Calliden Shareholders approve the Scheme (in accordance with the Corporations Act).

(v) Court approval

The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.

(vi) No Calliden Prescribed Event

No Calliden Prescribed Event occurs between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date.

(vii) No Calliden Material Adverse Change

No Calliden Material Adverse Change occurs between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date.

(viii) Calliden representations and warranties

Calliden's representations and warranties set out in Schedule 6 of the Scheme Implementation Deed are true and correct in all material respects as at the date of the Scheme Implementation Deed and as at 8.00am on the Second Court Date.

(ix) Steadfast representations and warranties

Steadfast's representations and warranties set out in Schedule 7 of the Scheme Implementation Deed are true and correct in all material respects as at the date of the Scheme Implementation Deed and as at 8.00am on the Second Court Date.

(x) Calliden Group Board changes

Before 8.00am on the Second Court Date, all required regulatory approvals (if any) are obtained to permit the agreed appointment and retirement of Calliden Directors.

(xi) Share and Business Acquisition Agreement

The Share and Business Acquisition Agreement not having been terminated. The circumstances in which the Share and Business Acquisition Agreement may be terminated are set out in section 2.8(c).

(xii) Deed Poll

The Deed Poll having been signed and delivered by Steadfast.

As at the date of this Scheme Booklet, Calliden is not aware of any circumstances that would cause any Condition Precedent not to be either satisfied or waived.

(b) Exclusivity

(i) No shop and no talk

Calliden must ensure that during the Exclusivity Period neither it nor any of its Related Bodies Corporate or Representatives, directly or indirectly:

- **(No shop)** solicits, invites or initiates any enquiries, negotiations or discussions or communicates any intention to do any of those things, with a view to obtaining any offer, proposal or expression of interest, from any person in relation to a Competing Transaction; or
- **(No talk)** participates in any negotiations or discussions with any other person with respect to, or which could reasonably be expected to lead to, a Competing Transaction, negotiate, accept or enter into any arrangement regarding a Competing Transaction (or offer or agree to do any of those things), disclose or otherwise provide any non-public information about Calliden's affairs to a third party (other than to fulfil Calliden's continuous disclosure requirements) with a view to obtaining a Competing Transaction, or communicate an intention to do any of those things.

The "no talk" restriction described above does not prevent Calliden or its Related Bodies Corporate or Representatives from taking action (or not taking action) in relation to a Competing Transaction if the Calliden Board has determined, in good faith and acting reasonably, that: (i) after consultation with its financial advisers, such a Competing Transaction could reasonably be considered to be, or to be capable of becoming, a Superior Proposal; and (ii) after receiving written advice from external legal advisers, that failing to respond to such a Competing Transaction would be reasonably likely to constitute a breach of the Calliden Board's fiduciary or statutory obligations or would otherwise be unlawful to not undertake such action; and (iii) provided the Competing Transaction was not facilitated by a breach of the "no shop" restriction.

Additionally, the "no shop" and "no talk" restrictions do not prevent Calliden from making presentations to, or responding to enquiries from, brokers, investors and analysts in the ordinary course.

(ii) Third party standstills

Calliden must also enforce, and not terminate or waive, any standstill obligations of any third party, except in relation to a Competing Transaction where Steadfast has failed to provide a matching or Superior Proposal which meets certain requirements.

(iii) Provision of information

Calliden is required, during the Exclusivity Period, to provide Steadfast with any material non-public information about its business which is disclosed to a third party in connection with an exception to the no-talk restriction described above and has not previously been provided to Steadfast.

(iv) Notification of approaches

During the Exclusivity Period, Calliden must promptly notify Steadfast if it or any of its Related Bodies Corporate or Representatives become aware of any unsolicited approach, enquiry, proposal or attempt to initiate any negotiations or discussions with respect to any Competing Transaction and must disclose to Steadfast the fact that such an approach has been made and the nature of the approach, including price or consideration proposed.

(v) Matching right (response to a Competing Transaction)

The Calliden Board must not enter into a legally binding agreement, arrangement or understanding in relation to a Competing Transaction or publicly change or withdraw its recommendation of the Scheme or the Scheme Resolution unless:

- Calliden has first provided Steadfast with:
 - the identity of the person proposing the Competing Transaction;
 - the material terms of the Competing Transaction; and
 - any material information provided to the person making the Competing Transaction that has not either been publicly disclosed or previously provided to Steadfast; and
- Calliden has given Steadfast at least five Business Days to provide a matching or superior counter-proposal for Calliden Shareholders as a whole compared with the terms of the Competing Transaction, and Steadfast does not propose such a counter-proposal.

(c) Reimbursement fee

A reimbursement fee of \$900,000 is payable by Calliden to Steadfast if any of the following events occur:

- any Calliden Director either withdraws or changes their recommendation of the Scheme, except:
 - where the change is made following the receipt of the Independent Expert's Report which states that the Scheme is not in the best interests of Shareholders (other than because of a Superior Proposal); or
 - as a result of any matter giving Calliden the right to terminate the Scheme Implementation Deed in accordance with its terms;
- Calliden enters into a legally binding agreement to undertake a Competing Transaction;
- any Calliden Director either withdraws or changes their recommendation of the Scheme as a result of a Competing Transaction;
- the Calliden Board announces that a Competing Transaction is a Superior Proposal;
- a Competing Transaction is announced and at any time prior to five months after the End Date, a person proposing the Competing Transaction (together with its Associates) has a relevant interest in more than 50% of Calliden Shares, or acquires or obtains an economic interest in all or a substantial part of the assets of the Calliden Group, except where a matter or thing has arisen giving Calliden the right to terminate the Scheme Implementation Deed in circumstances where Steadfast breaches a material term of the Scheme Implementation Deed, MHA breaches a material term of the Share and Business Acquisition Agreement, either Steadfast or MHA becomes Insolvent or Steadfast breaches a representation or warranty under the Scheme Implementation Deed (subject to prescribed conditions pertaining to such a breach); or
- the Transaction does not proceed because Calliden is in material breach of any clause of the Scheme Implementation Deed (including a representation or warranty), provided that Steadfast has, if practicable, given notice to Calliden setting out the relevant circumstances and the relevant circumstances continue to exist five Business Days (or any shorter period ending at 8.00am on the Second Court Date) after the time such notice is given. The payment of a \$900,000 reimbursement fee in these circumstances is in addition to any other damages that Calliden may be liable for, subject to an aggregate cap of \$5,400,000 (excluding in the case of fraud).

No amount is payable by Calliden as a reimbursement fee if the Scheme becomes Effective.

2. DETAILS OF THE SCHEME

(continued)

(d) Standstill

For a period of six months after the date of the Scheme Implementation Deed, Steadfast has agreed that it and its Related Bodies Corporate will not (and Steadfast must use best endeavours to procure that its directors and officers do not, without the prior written consent of Calliden) deal in any securities in Calliden (which includes Calliden Shares), other than pursuant to the Scheme.

(e) Timetable

Calliden and Steadfast have acknowledged and agreed that:

- it is fundamental that completion of the sale and purchase of the On-Sale Business under the Share and Business Acquisition Agreement occurs on the Implementation Date immediately following implementation of the Scheme; and
- if each of Steadfast and MHA is not able to deliver the 'ready, willing and able' confirmations under the Share and Business Acquisition Agreement, then Steadfast, Calliden and MHA must co-operate in good faith to agree the minimum necessary extension of the Scheme timetable so that completion under the Share and Business Acquisition Agreement can occur on the new proposed Implementation Date.

(f) Representations and warranties

Calliden and Steadfast have given representations and warranties to each other which are considered to be customary for a transaction of this nature.

(g) Termination

The Scheme Implementation Deed may be terminated:

- **(End Date)** by either Calliden or Steadfast, if the Scheme has not become Effective on or before the End Date;
- **(lack of support)** by Steadfast, at any time prior to 8.00am on the Second Court Date, if any Calliden Director (who was a director at the date of the Scheme Implementation Deed) withdraws or changes their recommendation or ceases to recommend to Calliden Shareholders that they vote in favour of the Scheme;
- **(competing interest)** by Steadfast, if a person (other than a member of the Steadfast Group or the MHA Group) acquires a relevant interest in more than 15.1% of Calliden Shares or acquires a relevant interest in any shares in CIL, CASL or QUS following the date of the Scheme Implementation Deed;
- **(Superior Proposal)** by either Calliden or Steadfast, if the Calliden Board determines and publicly announces that a Competing Transaction (without there being breach of clause 10 ("Exclusivity")) of the Scheme Implementation Deed is a Superior Proposal. However, Calliden cannot terminate the Scheme Implementation Deed until after the prescribed Competing Transaction response procedure has been followed in good faith;
- **(consultation, appeal failure)** by either party, if the parties are unable to agree on continuing to seek to proceed with the Transaction despite the failure of a Condition Precedent;
- **(material breach by Calliden)** by Steadfast, if Calliden breaches a material term of the Scheme Implementation Deed or if MHA breaches the MHA Deed Poll and Steadfast has, if practicable, given notice to Calliden setting out the relevant circumstances and the relevant circumstances continue to exist five Business Days (or any shorter period ending at 8.00am on the Second Court Date) after the time such notice is given;
- **(material breach by Steadfast)** by Calliden, if Steadfast breaches a material term of the Scheme Implementation Deed or if MHA breaches the MHA Deed Poll and Calliden has, if practicable, given notice to Steadfast setting out the relevant circumstances and the relevant circumstances continue to exist five Business Days (or any shorter period ending at 8.00am on the Second Court Date) after the time such notice is given;
- **(Insolvency)** by either party, if the other party or MHA or (in the case of termination by Steadfast only) any Subsidiary of Calliden becomes Insolvent;
- **(agreement)** if agreed to in writing by Calliden and Steadfast; or
- **(representation or warranty)** by either party if a representation or warranty given by the other party under the Scheme Implementation Deed is or becomes untrue in any material respect and the breach of the representation or warranty is of a kind that, had it been disclosed to the first party before its entry into the Scheme Implementation Deed, could reasonably be expected to have resulted in that first party either not entering into the Scheme Implementation Deed or entering into it on materially different terms (and the terminating party has, if practicable, given notice to the party who gave the warranty setting out the relevant circumstances and the relevant circumstances continue to exist five Business Days (or any shorter period ending at 8.00am on the Second Court Date) after the time such notice is given), provided, in the case of



any termination in circumstances where Calliden (as the terminating party) would (or would if the Scheme does not become Effective) be liable to pay the reimbursement fee to Steadfast (as described above in section 2.7(c)), termination may only occur if such amount has been paid or its payment has been secured to the satisfaction of Steadfast.

2.8 Steps in implementing the scheme

(a) Scheme Implementation Deed

On 27 August 2014, Calliden and Steadfast entered into the Scheme Implementation Deed under which Calliden agreed to propose the Scheme to Calliden Shareholders. A summary of the key terms of the Scheme Implementation Deed is set out in section 2.7 and a copy of the Scheme Implementation Deed is provided in Annexure B.

(b) Deed Poll

Steadfast has executed the Deed Poll, pursuant to which Steadfast has undertaken in favour of each Scheme Shareholder to provide each Scheme Shareholder with the Scheme Consideration to which they are entitled under the Scheme, subject to the Scheme becoming Effective.

A copy of the Deed Poll is contained in Annexure D.

(c) On-Sale Business

On 27 August 2014, Steadfast and MHA entered into the Share and Business Acquisition Agreement under which Steadfast and MHA have agreed that, if the Scheme is approved and implemented, Steadfast will procure that the On-Sale Business will be sold to the MHA Purchasers, and MHA will procure that the MHA Purchasers will buy the On-Sale Business. The aggregate purchase price for the On-Sale Business is \$50.7 million subject to possible adjustments in accordance with the Share and Business Acquisition Agreement (which will include an adjustment to reflect the payment of the Special Dividend).

It is a significant term of the Share and Business Acquisition Agreement that completion of the sale and purchase of the On-Sale Business will occur immediately after the Scheme is implemented. This is so that Steadfast will not at any time have control of the On-Sale Business other than for a moment in time (i.e. the short period between the implementation of the Scheme and completion of the sale and purchase of the On-Sale Business during which period it will hold the benefit of the On-Sale Business as agent for

the MHA Purchasers). From implementation of the Scheme, Steadfast will hold shares in CIL, in particular, on behalf of MHA.

The Share and Business Acquisition Agreement not having been terminated is a condition precedent to implementation of the Scheme. Accordingly, the Scheme Implementation Deed and the Share and Business Acquisition Agreement are closely connected. The circumstances in which the Share and Business Acquisition Agreement may be terminated are described below.

The Share and Business Acquisition Agreement provides that MHA will have paid the aggregate purchase price for the On-Sale Business upon the repayment by Steadfast of the loan under, and in accordance with the terms of, the MHA Loan Agreement (which provides that the loan will have been repaid if the sale and purchase of the On-Sale Business occurs in accordance with the Share and Business Acquisition Agreement).

Upon implementation of the Scheme and following completion of the sale and purchase of the On-Sale Business, Steadfast will own the remaining agency businesses, including all of ARGIS Insurance, Calliden Home, Calliden Warranty, Dawes Special Motor, IUA Business Interruption, Mansions of Australia and Calliden Accident & Health, and 46.5% of the shares in QUS, which operates the QUS Strata Business. Steadfast will own the servicing of the Warranty agency for all states and territories and Munich Re will be responsible for either the insurance or reinsurance of the portfolio.

It is contemplated that prior to the Second Court Date, Steadfast and MHA will enter into a Transitional Services Agreement which will apply for 24 months (or as otherwise agreed in writing) following completion of the sale and purchase of the On-Sale Business to govern the separation of the On-Sale Business and the businesses that are to remain with Steadfast.

It is also contemplated that MHA and Steadfast will work in cooperation with each other to implement such a transition process in relation to employees and to take reasonable steps to ensure that following completion of the sale and purchase of the On-Sale Business, the On-Sale Business will continue to be supported.

Each of MHA and Steadfast must use its best endeavours to ensure that, by not later than the Business Day after the Calliden Shareholders approve the Scheme (assuming that occurs), it has given written notice to the other confirming that it is ready, willing and able to complete the sale and purchase of

2. DETAILS OF THE SCHEME

(continued)

the On-Sale Business under the Share and Business Acquisition Agreement on the Implementation Date immediately following implementation of the Scheme. If those notices cannot be given by that time, Steadfast and Calliden must agree a revision to the Second Court Date and subsequent dates in the indicative timetable (for the minimum practicable time), to enable the on-sale to proceed immediately upon implementation of the Scheme.

The Share and Business Acquisition Agreement will automatically terminate if the Scheme Implementation Deed is terminated before the date of completion of the sale and purchase of the On-Sale Business. MHA may terminate the Share and Business Acquisition Agreement before 8.00am on the Second Court Date if Calliden breaches a material term of the Scheme Implementation Deed and Steadfast has, if practicable, given notice to Calliden setting out the relevant circumstances and the relevant circumstances continue to exist five Business Days (or any shorter period ending at 8.00am on the Second Court Date) after the time such notice is given. Either Steadfast or MHA can terminate the Share and Business Acquisition Agreement by notice to the other if any event or circumstance occurs or emerges that would prevent the shares in CIL from being able to be transferred on the Implementation Date immediately following implementation of the Scheme.

(d) MHA Deed Poll

MHA has executed the MHA Deed Poll, pursuant to which MHA has undertaken in favour of Calliden and Steadfast, among other things:

- to give all reasonable assistance to Calliden and Steadfast (as applicable) so that Calliden and Steadfast may promptly apply for the necessary consents, waivers and approvals of a Regulatory Authority; and
- for a period of six months after the date of the MHA Deed Poll, that it and its Subsidiaries will not (and MHA must use best endeavours to procure that its directors and officers do not, without the prior written consent of Calliden and Steadfast) deal in any securities in Calliden (which includes Calliden Shares), other than pursuant to the Scheme.

Under the terms of the MHA Deed Poll, MHA has also warranted in favour of Calliden and Steadfast that from the date of the MHA Deed Poll (being 27 August 2014) and at all times before 8.00am on the Second Court Date, MHA has reasonable grounds for believing it will have available to it, sufficient amounts (whether internal cash resources or external funding

arrangements or a combination of both) to satisfy its obligation to pay the aggregate purchase price for the On-Sale Business to Steadfast. The aggregate purchase price paid by MHA under the Share and Business Acquisition Agreement will be applied by Steadfast to satisfy its obligation to pay the Scheme Consideration to Scheme Shareholders. As mentioned above, Steadfast and MHA have agreed that MHA will have paid the aggregate purchase price for the On-Sale Business under the Share and Business Acquisition Agreement upon the repayment by Steadfast of the loan under and in accordance with the terms of the MHA Loan Agreement (which provides that the loan will have been repaid if the sale and purchase of the On-Sale Business occurs in accordance with the Share and Business Acquisition Agreement).

(e) Court hearings

On 31 October 2014, the Court ordered that Calliden convene the Scheme Meeting to be held at the Royal Automobile Club of Australia, 89 Macquarie Street, Sydney on 8 December 2014, commencing at 10.00am, for the purposes of considering the Scheme. The order of the Court convening the Scheme Meeting is not, and should not be treated by Calliden Shareholders as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

Calliden will apply to the Court for an order approving the Scheme if the Scheme is approved by the Requisite Majority of Calliden Shareholders at the Scheme Meeting. The Court has discretion as to whether to grant the orders approving the Scheme, even if the Scheme is approved by the Requisite Majority of Calliden Shareholders.

The Corporations Act and the Federal Court [Corporations] Rules 2000 provide a procedure for Calliden Shareholders to oppose the approval by the Court of the Scheme. If you wish to oppose the approval of the Scheme at the Second Court Hearing you may do so by filing with the Court and serving on Calliden an interlocutory process in the prescribed form together with any affidavit on which you wish to rely at the hearing. With leave of the Court, you may also oppose the approval of the Scheme by appearing at the Second Court Hearing and applying to raise any objections you may have at the hearing. Calliden should be notified in advance of an intention to object. The date for the Second Court Hearing is currently scheduled to be 11 December 2014, although an earlier or later date may be sought. Any change to this date will be announced through ASX and notified on Calliden's website (www.calliden.com.au).

(f) Implementation of Scheme**(i) SCHEME MEETING**

Calliden Shareholders will be asked to approve the Scheme at the Scheme Meeting. The notice convening the Scheme Meeting is set out in Annexure E to this Scheme Booklet.

At the Scheme Meeting, Calliden Shareholders will be asked to consider and, if thought fit, to pass the Scheme Resolution thereby approving the Scheme. The Scheme Resolution will only be passed if:

- (A) a majority in number (more than 50%) of Calliden Shareholders present and voting (whether in person or by proxy) vote in favour of the Scheme; and
- (B) at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting are in favour of the Scheme.

(ii) SECOND COURT HEARING

If:

- (A) the Scheme is approved by the Requisite Majority of Calliden Shareholders at the Scheme Meeting; and
- (B) all the Conditions Precedent have been either satisfied or waived (as applicable),

Calliden will apply to the Court for orders approving the Scheme following the Scheme Meeting.

Each Calliden Shareholder has the right to appear at the Second Court Hearing in respect of the Scheme. The Second Court Hearing is currently scheduled to be held on 11 December 2014.

(iii) EFFECTIVE DATE

If the Court approves the Scheme, Calliden will lodge an office copy of the Court order approving the Scheme with ASIC. It is currently intended that Calliden will lodge this with ASIC on 12 December 2014.

The Scheme will become Effective on the date on which Calliden lodges the Court order approving the Scheme with ASIC. This date is referred to in this Scheme Booklet as the Effective Date.

(iv) SCHEME RECORD DATE

Calliden Shareholders will be Scheme Shareholders and entitled to receive the Scheme Consideration if they are regarded as registered as the holder of one or more Calliden Shares on the Scheme Record Date.

(g) Determination of who is entitled to the Special Dividend

Calliden Shareholders will be entitled to receive the Special Dividend if they are regarded as registered as the holder of one or more Calliden Shares on the Special Dividend Record Date. For the purpose of calculating entitlements to the Special Dividend, any dealings in Calliden Shares will only be recognised if such Calliden Shareholders' dealings are effected on or before the close of trading on, and registrable transmission applications or transfers in respect of those dealings are received on or before, the Special Dividend Record Date. Those LTI Plan participants who have been allocated existing Calliden Shares after the date of this Scheme Booklet and continue to hold those Calliden Shares on the Special Dividend Record Date will also be entitled to the Special Dividend.

(h) Determination of who is entitled to the Scheme Consideration

As mentioned in section 2.8(f)(iv), for the purpose of calculating entitlements under the Scheme, any dealings in Calliden Shares will only be recognised if such dealings are effected on or before the close of trading on, and registrable transmission applications or transfers in respect of those dealings are received on or before, the Scheme Record Date. Those LTI Plan participants who have been allocated existing Calliden Shares after the date of this Scheme Booklet and continue to hold those Calliden Shares on the Scheme Record Date will also be entitled to the Scheme Consideration. As set out in section 2.11, trading in Calliden Shares is currently expected to be suspended from the close of trading on ASX on the Effective Date.

For the purpose of determining entitlements to Scheme Consideration, Calliden will, until payment of such Scheme Consideration has been made, maintain the Register upon the basis that Calliden Shares have not been transferred after the Scheme Record Date and otherwise in accordance with the foregoing provisions of this section and the Register in this form will solely determine entitlements to Scheme Consideration.

(i) Payment of Special Dividend

If the Scheme becomes Effective, the Special Dividend will be paid by Calliden to eligible Calliden Shareholders on 19 December 2014.

The Special Dividend will be paid by making a deposit into the nominated bank account of Calliden Shareholders recorded with the Calliden Share Registry as at the Special Dividend Record Date. This will be a separate payment from the

2. DETAILS OF THE SCHEME

(continued)

payment of Scheme Consideration. If a Calliden Shareholder has not previously notified the Calliden Share Registry of their nominated bank account, they should visit the self-service site (www.computershare.com.au/easyupdate/cix) and complete their own entry or contact the Calliden Share Registry on 1300 308 185 prior to the Special Dividend Record Date. If a Calliden Shareholder does not have a nominated bank account with the Calliden Share Registry as at the Special Dividend Record Date, they will be sent a cheque for the Special Dividend. If any Calliden Shareholder's address is unknown as at the Special Dividend Record Date, the Special Dividend will be paid into a separate bank account and held until claimed or applied under laws dealing with unclaimed moneys.

(j) Payment of Scheme Consideration

If the Scheme becomes Effective:

- no later than one Business Day before the Implementation Date, the Escrow Agent will deposit the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders in immediately available funds in a trust account operated by Calliden to be held on trust for the purpose of paying the Scheme Consideration to Scheme Shareholders; and
- as soon as practicable, and within five Business Days after the Implementation Date, the Scheme Consideration will be paid to Scheme Shareholders by making a deposit into the nominated bank account of each Scheme Shareholder recorded with the Calliden Share Registry as at the Scheme Record Date. If a Scheme Shareholder has not previously notified the Calliden Share Registry of their nominated bank account, they should visit the self-service site (www.computershare.com.au/easyupdate/cix) and complete their own entry or contact the Calliden Share Registry on 1300 308 185 prior to the Scheme Record Date. If a Scheme Shareholder does not have a nominated bank account with the Calliden Share Registry as at the Scheme Record Date, they will be sent a cheque for the Scheme Consideration.

(k) Reconstitution of the Calliden Board

As soon as practicable after the Second Court Date, and subject to but not later than immediately after the Scheme Consideration is paid into the trust account operated by Calliden, the existing Calliden Directors will resign from the Calliden Board and they will be replaced by Steadfast nominees.

(l) Implementation Date

On the Implementation Date, all of the Scheme Shares will be transferred to Steadfast.

(m) Delisting of Calliden

On a date after the Implementation Date, Calliden will apply for the termination of the official quotation of Calliden Shares on ASX and for Calliden to be removed from the official list of ASX.

2.9 Funding arrangements of Scheme Consideration

(a) Overview

Based on the 226,683,914 Calliden Shares on issue, the amount of cash payable by Steadfast to Calliden Shareholders (if the Scheme is approved and implemented) will be approximately \$94.1 million.

Steadfast intends to fund the Scheme Consideration by applying the loan amount advanced to Steadfast by MHA under the MHA Loan Agreement and by drawing on external debt financing as described below. Steadfast may also consider equity alternatives to some or all of the external debt, to preserve funding flexibility for the future.

Subject to the terms and conditions described below, Steadfast has advised Calliden that the total amount of debt finance when aggregated with the loan amount Steadfast will receive from MHA, will be sufficient for Steadfast to pay 100% of the Scheme Consideration to Scheme Shareholders in accordance with the terms of the Scheme.

(b) Steadfast debt finance arrangements

Steadfast has a \$130 million revolving line of credit facility within Macquarie Bank. As at 30 June 2014, \$21 million in debt (including bank overdrafts) had been utilised by Steadfast, leaving \$109 million in undrawn facility. Steadfast intends to use the undrawn portion of the Macquarie Bank facility, together with the MHA loan, to fund the acquisition of 100% of the Calliden Shares pursuant to the Scheme. The revolving line of credit facility is made available to Steadfast for the purposes of, among other things, funding Steadfast's proportion of the Scheme Consideration, and funding payment of fees, costs and expenses incurred by Steadfast in connection with the Scheme (estimated to be approximately \$58 million in total).

(c) Conditions precedent to the availability of Steadfast's Macquarie Bank debt finance arrangements

Macquarie Bank has agreed that Steadfast may draw down on its line of credit in an amount of \$60 million for the purposes of funding Steadfast's proportion of the Scheme Consideration and associated costs subject only to:

- (i) satisfaction of all Conditions Precedent, with any requests for waiver of a Condition Precedent between the parties to be referred to Macquarie Bank for approval;
- (ii) execution of the Transitional Services Agreement, Escrow Agreement and MHA Loan Agreement, on terms to Macquarie Bank's satisfaction, including but not limited to clear funds securing MHA's obligations under the Share and Business Acquisition Agreement being deposited in escrow in advance of the Second Court Date, and with no further rights afforded to MHA to control the distribution of funds outside compliance with the Share and Business Acquisition Agreement;
- (iii) no variations to be made to the transaction documents associated with the Scheme post signing without Macquarie Bank's written consent;
- (iv) confirmation that binder agreements are in place with insurers across each product line to be acquired. This includes the obtaining of relevant consents and approvals and/or renegotiation of terms. The terms of agreements are to be satisfactory to Macquarie Bank; and

- (v) otherwise, a drawdown notice in the usual form be provided, including confirmation from Steadfast that the representations and warranties under the loan facility (which are typical for a facility of this nature) are true and not misleading and that there are no events of default subsisting under the loan facility.

As at the date of this Scheme Booklet, Steadfast is not aware of any reason why any of the conditions precedent to the debt finance arrangements will not be satisfied and expects that they will be satisfied in time to allow Steadfast's respective payment of the Scheme Consideration.

(d) MHA loan

Steadfast has entered into the MHA Loan Agreement with MHA under which MHA has agreed to loan up to \$50.7 million to Steadfast to facilitate the proposed acquisition by Steadfast of 100% of the Calliden Shares pursuant to the Scheme, conditional on the Court approving the Scheme. Steadfast and MHA have agreed that MHA will have paid the aggregate purchase price for the On-Sale Business under the Share and Business Acquisition Agreement upon the repayment by Steadfast of the loan under and in accordance with the terms of the MHA Loan Agreement (which provides that the loan will have been repaid if the sale and purchase of the On-Sale Business occurs in accordance with the Share and Business Acquisition Agreement).

(e) Escrow arrangements

MHA and Steadfast have agreed to fund their respective amounts of the Scheme Consideration by the Business Day before the Second Court Date. This will be by payment into the Escrow Account operated by Computershare Investor Services Pty Limited in accordance with the Escrow Agreement. The only condition to the release of the escrow funds is the Court approving the Scheme at the Second Court Hearing.

2. DETAILS OF THE SCHEME

(continued)

2.10

Warranties by Scheme Shareholders

The terms of the Scheme provide that each Scheme Shareholder is taken to have warranted to Steadfast, and is deemed to have authorised Calliden as its agent and attorney to warrant to Steadfast, that:

- (i) all their Scheme Shares (including any rights and entitlements attaching to those shares) that are transferred under the Scheme will, at the date of transfer, be fully paid and free from all encumbrances; and
- (ii) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Steadfast under the Scheme.

2.11

Dealing in Scheme Shares

Calliden Shareholders may sell their Calliden Shares on ASX at any time prior to the suspension of trading in Calliden Shares on the ASX (should the Scheme proceed), if they do not wish to hold them and participate in the Scheme. Calliden Shareholders may also purchase additional Calliden Shares on ASX at any time prior to the suspension of trading in Calliden Shares on ASX. Trading in Calliden Shares is currently expected to be suspended from the close of trading on ASX on the Effective Date.

On a date shortly after the Implementation Date, Calliden (which at that time will be wholly owned by Steadfast) will apply for the termination of the official quotation of Calliden Shares on ASX and for Calliden to be removed from the official list of ASX.

2.12

What happens if the Scheme does not proceed?

If the Scheme does not proceed, the Scheme Consideration and the Special Dividend will not be paid and Calliden will continue to be listed on ASX. Calliden Shareholders will retain their Calliden Shares and continue to share in any benefits and risks of Calliden's ongoing business.

In addition, if the Scheme does not proceed, the price of Calliden Shares is likely to fall. In those circumstances, you will retain your Calliden Shares and be exposed to the risks set out in section 8. You should also have regard to the outlook of Calliden Group which is more fully described in section 4.10.

Your rights as a Calliden Shareholder will remain unchanged. You will continue to be entitled to receive dividends as a Calliden Shareholder and to participate in the development of Calliden.

Calliden will be liable to pay for all costs and expenses it incurs in relation to the Scheme, such as printing costs and advisers' fees, whether or not the Scheme proceeds. If the Scheme does proceed, Calliden is expected to incur costs which amount to approximately \$2 million. If the Scheme does not proceed, these costs are expected to be approximately \$1 million.

If Calliden Shareholders do not vote in favour of the Scheme Resolution, and the Calliden Directors have not withdrawn their recommendation that Calliden Shareholders vote in favour of the Scheme, the reimbursement fee described in section 2.7(c) will not be payable to Steadfast. However, this reimbursement fee may be payable if any Calliden Director withdraws or changes his recommendation, depending on the circumstances. A detailed summary of the reimbursement fee arrangements between Steadfast and Calliden is contained in section 2.7(c).

Calliden has a strong business model and management team. If the Scheme does not proceed, it is the Calliden Directors' current intention to continue operating Calliden in line with its previously stated objectives.

3. THE SCHEME MEETING AND HOW TO VOTE



3.1 Scheme Meeting

The Scheme Meeting will be held at 10.00am (Sydney time) on Monday 8 December 2014. The notice convening the Scheme Meeting is set out in Annexure E to this Scheme Booklet.

At the Scheme Meeting, Calliden Shareholders will be asked to consider and, if thought fit, to pass the Scheme Resolution. The Scheme Resolution will only be passed if:

- (i) a majority in number (more than 50%) of Calliden Shareholders present and voting (whether in person or by proxy) vote in favour of the Scheme; and
- (ii) at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting vote in favour of the Scheme.

Voting at the meeting will be conducted by poll.

3.2 Who is entitled to vote at the Scheme Meeting?

If you are registered as a Calliden Shareholder in the Register at the Voting Entitlement Time (being 7.00pm on 6 December 2014), you will be entitled to attend and vote at the Scheme Meeting.

Calliden Shareholders who are eligible to vote on the Scheme Resolution may vote in person, by proxy, by attorney or, in the case of a body corporate, by a duly appointed corporate representative.

3.3 Voting in person

If Calliden Shareholders wish to vote in person at the Scheme Meeting, they should attend the Scheme Meeting which will be held at the Royal Automobile Club of Australia, 89 Macquarie Street, Sydney at 10.00am on 8 December 2014. All persons entitled to vote will be required to register and will be given a voting card.

3.4 Voting by proxy

Eligible Calliden Shareholders wishing to vote by proxy at the Scheme Meeting can appoint a proxy to attend the Scheme Meeting and vote on their behalf by completing the personalised Proxy Form that accompanies this Scheme Booklet (in accordance with the instructions on that form).

If you are entitled to cast two or more votes at the Scheme Meeting, you may appoint one or two proxies. A proxy need not be another Calliden Shareholder. A person appointed as a proxy may be either an individual or a body corporate. Each proxy will have the right to vote on the poll.

Completed Proxy Forms must be received by the Calliden Share Registry by 10.00am (Sydney time) on 6 December 2014 in any of the following ways:

- by post in the enclosed reply paid envelope provided to the Calliden Share Registry: Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001;
- by hand delivery (during business hours) to the Calliden Share Registry: Computershare Investor Services Pty Limited, Level 4, 60 Carrington Street, Sydney NSW 2000;
- by fax to the Calliden Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia);
- online at www.investorvote.com.au; or
- online at www.intermediaryonline.com for intermediary online subscribers (custodians) only.

Proxy Forms received after this time will be invalid.

3. THE SCHEME MEETING AND HOW TO VOTE

(continued)

3.5

Voting by attorney

If you wish to vote by attorney, the power of attorney appointing your attorney to attend and vote at the Scheme Meeting must be duly executed by you and specify your name, Calliden, and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one. The power of attorney or a notarially certified copy of the power of attorney must be delivered and received by the Calliden Share Registry (at the address or facsimile number specified in section 3.4) by no later than 10.00am on 6 December 2014 (or 48 hours prior to the commencement of the Scheme Meeting or any adjournment of that meeting). An attorney will be admitted to the Scheme Meeting and given a voting card upon providing, at the point of entry to the Scheme Meeting, written evidence of their appointment and their identity. Further details in connection with the appointment of attorneys are contained in the Notice of Scheme Meeting in Annexure E.

3.6

Voting by corporate representative

If you are a body corporate, you may appoint a person to act as your corporate representative to vote at the Scheme Meeting. A form of certificate of appointment of a body corporate representative may be obtained from the Calliden Share Registry or online at www.investorcentre.com under the help tab, "Printable Forms". The completed certificate of appointment should be lodged at the registration desk on the day of the Scheme Meeting or be received by the Calliden Share Registry (at the address or facsimile number specified in section 3.4) by no later than 10.00am on 6 December 2014 (or 48 hours prior to the commencement of the Scheme Meeting). An authorised corporate representative will be admitted to the Scheme Meeting and given a voting card upon providing, at the point of entry to the Scheme Meeting, written evidence of their appointment (including any authority under which it is signed), their name and address and the identity of their appointer.

3.7

Approval of the Scheme

In addition to the Scheme Resolution being approved by the Requisite Majority of Calliden Shareholders, it is also necessary for all of the Conditions Precedent to be either satisfied or waived (as applicable), and for the Court to approve the Scheme before it can become Effective.

3.8

Further information

Please refer to the Notice of Scheme Meeting in Annexure E for further information on voting procedures and details of the Scheme Resolution.

4. INFORMATION ABOUT CALLIDEN



4.1 Introduction

Calliden is the parent company of a general insurance group that has been operating in the Australian market since 2005. Calliden has three principal areas of operation:

- as a managing general agent underwriting on behalf of a range of insurers, principally through a dedicated subsidiary, being CASL;
- as an 'authorised insurer' under the Insurance Act via CIL; and
- as an investor and joint venture partner in niche underwriting agencies, currently via QUS and Famous.

All three divisions of Calliden focus on the small and medium enterprise and personal customer segments of the Australian general insurance market.

4.2 Corporate structure

The diagram below sets out the current corporate structure of the Calliden Group.

Calliden is an authorised non-operating holding company of a general insurer under the Insurance Act.

Wholly owned subsidiaries

The main wholly owned operating entities of the Calliden Group are CIL and CASL (see below).

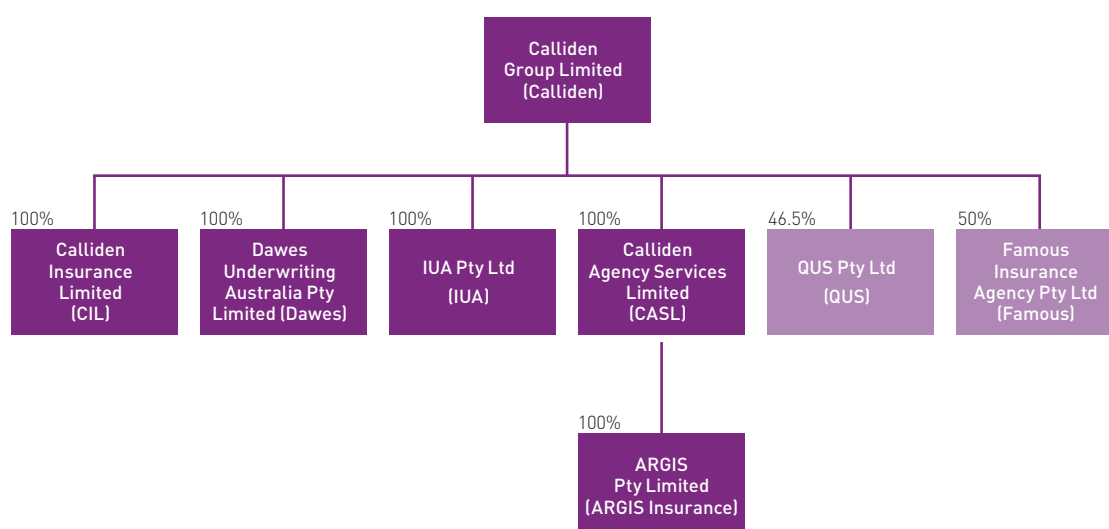
Dawes and IUA are authorised representatives of CIL and act as agents for prestige motor insurance and business interruption insurance respectively.

ARGIS Pty Limited is a dormant company.

Joint ventures

QUS is an agency business that underwrites strata insurance on behalf of WR Berkley Insurance until 30 November 2014 and for AIG from 1 December 2014. Calliden's shareholding percentage in QUS is 46.5%. The balance of shares in QUS is owned by Queensland Broker Holding Pty Limited and CKHODGO Investments Pty Limited.

Famous is an agency business that underwrites insurance for motorbike enthusiasts on behalf of CIL. Calliden's shareholding percentage in Famous is 50%. The balance of the shares in Famous is owned by Kurumbira Investments Pty Limited.



4. INFORMATION ABOUT CALLIDEN

(continued)

4.3

Overview of operations

(a) Agency operations

The agency operations component of the Calliden Group, which includes CASL, underwrites a range of insurance products from electronically delivered business packages and home insurance to specialised niche offerings for high value homes and exotic cars. CASL distributes its products solely through professional insurance intermediaries.

Entities within the Calliden Group, including CASL, act as agents on behalf of a variety of insurers, including GLA, Lloyd's, ACE Insurance and NSW Government's SICorp as well as Calliden Group's own insurer, CIL. In acting as an agent for insurers, each agent is paid a commission which is determined by the scope of services provided.

(b) CIL

CIL is a licensed insurer which, in contrast to CASL, carries risk in return for premiums.

CIL manufactures and distributes insurance products solely through underwriting agencies, including CASL and the Famous joint venture in addition to a range of third party niche agencies.

(c) Joint ventures

(i) QUS

QUS underwrites strata insurance on behalf of WR Berkley Insurance until 30 November 2014 and for AIG from 1 December 2014. QUS distributes solely via insurance brokers. Based in Brisbane, QUS underwrites strata insurance nationally.

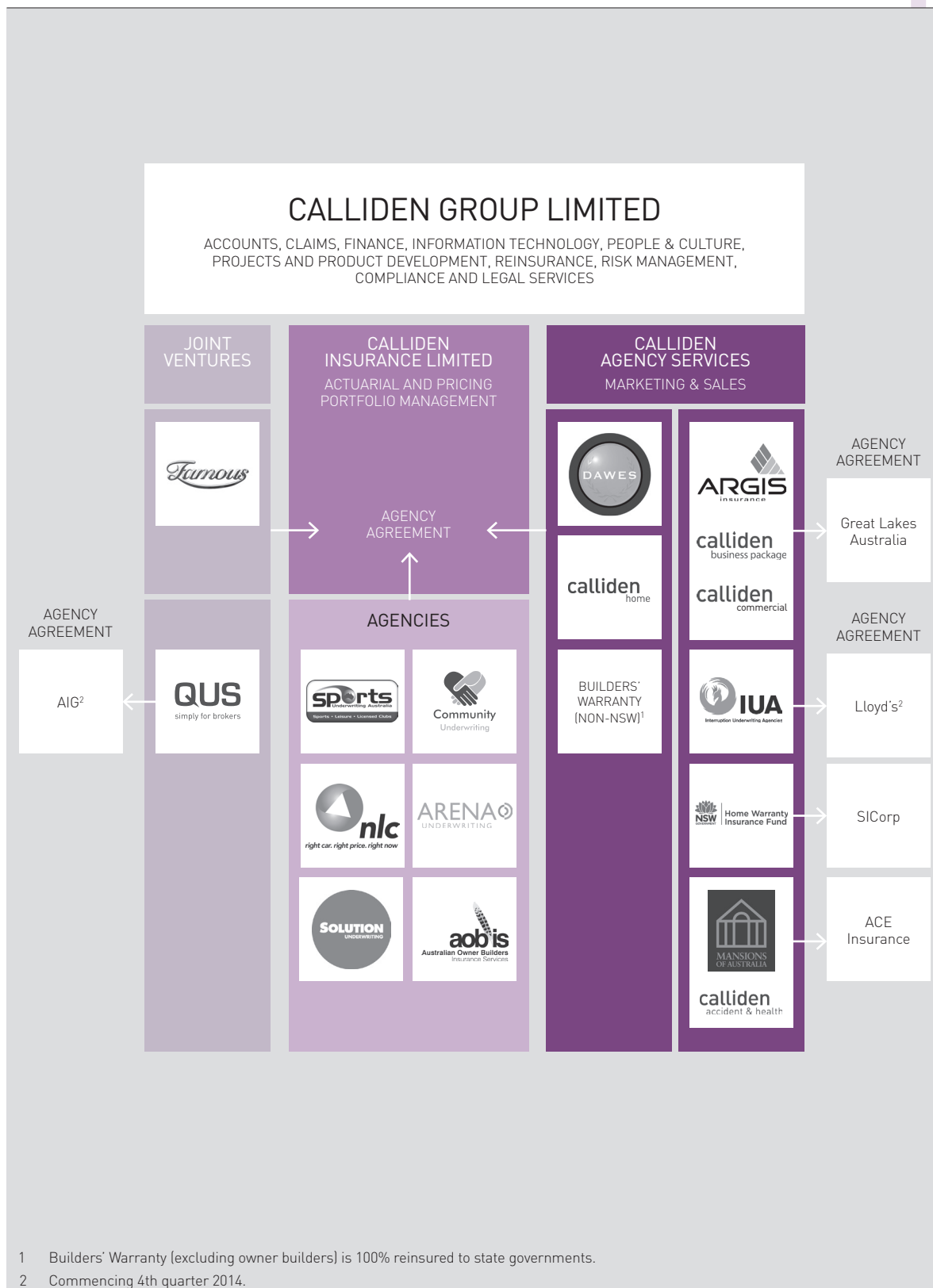
(ii) Famous

Famous provides insurance for motorbike enthusiasts as an agent on behalf of CIL. Famous distributes direct to consumers over the phone and internet as well as through affinity groups.

(d) Group services

The Calliden Group provides central services to all three customer facing divisions of the Calliden Group being CIL, CASL and the joint ventures. This ranges across claims, accounts and finance, people and culture, information technology and projects, product development, reinsurance, risk management, compliance and legal services.

In this way, the Calliden Group can provide cost effective and consistent support to underpin all of its product offerings.



4. INFORMATION ABOUT CALLIDEN

(continued)

4.4

Calliden Board and Senior Management

(a) The Calliden Board

The Calliden Board is currently comprised of the following members:

RICHARD JAMES HILL

CHAIRMAN, INDEPENDENT NON-EXECUTIVE DIRECTOR

Richard Hill has extensive investment banking and management experience. He was a founding partner of Hill Young & Associates and formerly held a number of senior executive positions in Hong Kong and New York with Wardley Holdings Limited, a wholly owned subsidiary of Hong Kong & Shanghai Banking Corporation. He was admitted as an attorney in New York State, USA and registered by the US Securities and Exchange Commission and the Ontario Securities Commission. He is the Chairman of Sirtex Medical Limited (since August 2006) and of Blackwall Property Funds Limited (since July 2006) and was a director of Biota Holdings Limited (from November 2008 until its delisting from the ASX in November 2012).

Richard has been a director of Calliden since 19 April 2000.

MAURICE WILLIAM LOOMES

INDEPENDENT NON-EXECUTIVE DIRECTOR

Maurice Loomes has an extensive background in investment analysis and strategy, and for a number of years was a senior executive with Guinness Peat Group Plc (director from 1996 to May 2000). He is also a director of Ariadne Australia Limited (since May 2004) and has recently been appointed to the board of Hillgrove Resources Ltd (since November 2013). He ceased to be on the board of Canberra Investment Corporation Limited in May 2013 (director since September 1994). He is also a former director of Tower Limited (from September 2003 to March 2005).

Maurice has been a director of Calliden since 24 October 2000.

JACK THESEUS LOWENSTEIN

NON-EXECUTIVE DIRECTOR

Jack Lowenstein is Managing Director and Joint Chief Investment Officer of Morpheic Asset Management Pty Ltd, a global equity fund manager based in Sydney. He was a director of Hunter Hall International Limited (from March 2004 to November 2011) and was a director of Hunter Hall Global Value Limited (from December 2003 to November 2011). He is also the non-executive Chairman of Kontiki Capital Limited, a Fiji-based regional investment bank (since June 1988).

Jack has been a director of Calliden since 19 April 2000.

NICHOLAS GEORGE KIRK

EXECUTIVE DIRECTOR

Nick Kirk has more than 30 years' insurance experience in Australia, continental Europe and the UK. He was previously with Vero where he held a number of general management roles most latterly responsible for their Specialty Businesses in Australia. Prior to Vero he held a number of senior underwriting management roles internationally with the Royal & Sun Alliance Group.

Nick has been a director of Calliden since 1 January 2005.

JOHN IAN MESSENGER

INDEPENDENT NON-EXECUTIVE DIRECTOR

John Messenger has extensive insurance, property and risk management experience. He was previously the Managing Director of MLC Insurance Limited, Chief Executive Officer of Corporate Risk Management for the Lend Lease Group, a director of Investa Properties Group Limited and a Deputy Chairman of Territory Insurance Office.

John has been a director of Calliden since 24 May 2007.

**ANTHONY VINCENT CONNON****NON-EXECUTIVE DIRECTOR**

Tony Connon is a Chartered Accountant with over 40 years' experience in various industries, having held senior finance and administration positions with Price Waterhouse, Grindlays Australia Limited, Elders Finance Group and The Australian Wheat Board. He is currently the Strategic Adviser to the Group Managing Director of Australian Unity Limited having joined the company as CFO in 1995. Tony is the honorary treasurer of Friendly Societies of Australia Inc., a member of the board of the Lord Mayor's Charitable Foundation in Melbourne and honorary treasurer of the Sir Robert Menzies Memorial Foundation.

Tony has been a director of Calliden since 21 September 2007.

(b) Senior Management

The key members of the Calliden senior management team include:

- Nick Kirk – Chief Executive Officer (and Executive Director)
- Anthony Dijanosic – Chief Financial Officer
- Mike Hooton – Group Executive, Agency Services
- Stephen Fay – Group Executive, Insurance Business
- Simone Dossetor – Group Executive, Claims and Strategy
- Dimi Bouboulas – Group Executive, IT and Projects

4. INFORMATION ABOUT CALLIDEN

(continued)

4.5

Share price graph

1 November 2012 to 30 October 2014.



Source: Bloomberg

4.6

Historical financial information

(a) Basis of preparation

The historical financial information provided below is a summary only and the full financial accounts of Calliden for the financial periods described on the following pages, which include the notes to the accounts, are available on Calliden's website (www.calliden.com.au).

The information provided comprises Calliden's consolidated statements of comprehensive income, financial position and cash flows for the years ended 31 December 2012 and 31 December 2013 and the half years ended 30 June 2013 and 30 June 2014. The full year statements have been extracted from Calliden's audited financial statements for each of the corresponding periods. The half year statements have been extracted from Calliden's reviewed financial statements for the relevant periods.



(b) Statements of comprehensive income

	6 months to 30 Jun 2014 \$'000	12 months to 31 Dec 2013 \$'000	6 months to 30 Jun 2013 \$'000	12 months to 31 Dec 2012 \$'000
CONTINUING OPERATIONS				
Gross written premium	49,414	95,739	53,908	172,000
Gross premium revenue	46,510	131,377	75,694	218,847
Reinsurance premium expense	(15,444)	(65,329)	(42,117)	(139,539)
Net premium revenue	31,066	66,048	33,577	79,308
Gross claims expense	(31,584)	(83,588)	(47,137)	(123,375)
Reinsurance and other recoveries revenue	10,695	44,265	27,665	83,414
Net claims expense	(20,889)	(39,323)	(19,472)	(39,961)
Acquisition costs	(10,263)	(37,793)	(16,223)	(54,591)
Reinsurance commission revenue	3,819	20,306	13,495	44,041
Net acquisition costs	(6,444)	(17,487)	(2,728)	(10,550)
Other underwriting expenses	(4,202)	(2,343)	(4,877)	(9,658)
Levies and charges	(949)	(8,318)	(5,955)	(18,921)
Underwriting expenses	(5,151)	(10,661)	(10,832)	(28,579)
Underwriting profit/(loss)	(1,418)	(1,423)	545	218
Investment income on assets backing insurance liabilities	1,909	4,004	2,312	5,247
Insurance profit	491	2,581	2,857	5,465
Agency commission and fee revenue	23,123	39,189	18,279	18,708
Agency acquisition costs	(9,614)	(18,163)	(8,731)	(10,881)
Agency expenses	(9,246)	(12,784)	(7,580)	(6,698)
Agency profit	4,263	8,242	1,968	1,129
Investment income on shareholders' funds	380	485	21	425
Share of net profits of joint ventures	278	603	93	253
Gains on sale of joint ventures	566	–	–	58
Other revenue/(expense)	–	65	5	(100)
Administration and other expenses	(3,063)	(5,822)	(2,933)	(6,141)
PROFIT BEFORE INCOME TAX	2,915	6,154	2,011	1,089
Income tax expense	(156)	–	–	–
PROFIT FROM CONTINUING OPERATIONS	2,759	6,154	2,011	1,089
OTHER COMPREHENSIVE INCOME	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,759	6,154	2,011	1,089
Basic earnings per ordinary share (cents)	1.24	2.72	0.89	0.48
Diluted earnings per ordinary share (cents)	1.22	2.71	0.89	0.48

4. INFORMATION ABOUT CALLIDEN

(continued)

(c) Statements of financial position

	30 Jun 2014 \$'000	31 Dec 2013 \$'000	31 Dec 2012 \$'000
ASSETS			
Cash and cash equivalents	41,764	28,589	24,504
Investments	61,582	65,592	70,000
Premium receivable	50,926	40,141	52,456
Trade and other receivables	15,017	22,213	12,296
Reinsurance and other recoveries receivable	46,899	54,220	72,902
Prepayments	729	902	817
Deferred levies and charges	597	901	7,455
Deferred reinsurance expense	15,760	12,869	46,561
Deferred acquisition costs	14,433	13,802	20,792
Deferred tax assets	3,750	3,750	3,750
Plant and equipment	1,599	1,817	2,180
Investments in joint ventures	444	855	603
Intangible assets	43,227	44,323	46,518
TOTAL ASSETS	296,727	289,974	360,834
LIABILITIES			
Trade and other payables	40,767	27,056	27,947
Employee benefits	1,541	1,375	1,254
Unearned premium liability	48,597	45,693	81,331
Unearned reinsurance commission	3,635	4,011	16,141
Unearned agency commission	2,410	2,172	1,252
Outstanding claims liability	102,592	110,701	137,058
Tax liabilities	156	–	–
TOTAL LIABILITIES	199,698	191,008	264,983
NET ASSETS	97,029	98,966	95,851
EQUITY			
Share capital	99,539	99,539	99,539
Treasury shares held in trust	(1,292)	(1,388)	(70)
Share-based payments reserve	891	698	379
Retained earnings/(accumulated losses)	(2,109)	117	(3,997)
TOTAL EQUITY	97,029	98,966	95,851



(d) Statements of cash flow

	6 months to 30 Jun 2014 \$'000	12 months to 31 Dec 2013 \$'000	6 months to 30 Jun 2013 \$'000	12 months to 31 Dec 2012 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Premiums received	98,408	174,946	88,245	216,379
Reinsurance and other recoveries received	20,940	70,836	38,899	94,099
Acquisition costs paid	(9,968)	(27,985)	(9,569)	(44,032)
Reinsurance premium paid	(13,392)	(35,350)	(24,984)	(96,145)
Claims paid	(39,798)	(110,023)	(62,022)	(150,590)
Underwriting and administration expenses paid	(14,780)	(26,349)	(20,578)	(39,631)
Interest received	3,005	4,657	3,215	3,871
Dividends received from joint ventures	475	350	250	30
Commission income received	22,060	42,507	14,853	14,802
Agency fee income received	4,738	7,241	3,088	4,977
Agency commission expenses paid	(9,802)	(17,846)	(7,857)	(12,385)
Premiums paid to underwriters	(48,101)	(79,337)	(31,284)	(19,102)
Other operating income	-	63	-	-
Net cash flows from/(used in) operating activities	13,785	3,710	(7,744)	(27,727)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net proceeds from sale/(purchase) of investments	4,000	4,408	(5,592)	10,000
Proceeds from sale of/(outlays for) plant and equipment	-	(31)	(8)	8
Outlays for software development expenditure	(354)	(644)	(323)	(718)
Proceeds from disposal of joint venture	781	-	-	500
Net cash flows from/(used in) investing activities	4,427	3,733	(5,923)	9,790
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	(4,987)	(2,040)	(907)	-
Loan provided to joint ventures	(50)	-	-	-
Repayment of loan provided to joint ventures	-	-	-	388
Outlays for purchase of treasury shares	-	(1,318)	(91)	(68)
Net cash flows from/(used in) financing activities	(5,037)	(3,358)	(998)	320
Net movements in cash and cash equivalents	13,175	4,085	(14,665)	(17,617)
Cash and cash equivalents at the beginning of the period	28,589	24,504	24,504	42,121
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	41,764	28,589	9,839	24,504

4. INFORMATION ABOUT CALLIDEN

(continued)

4.7

Material changes in Calliden's financial position

Within the knowledge of the Calliden Directors, the financial position of Calliden has not materially changed since 27 August 2014, being the date of Calliden's financial report for the half year ended on 30 June 2014. A copy of Calliden's financial report for the half year ended 30 June 2014 is available on ASX or for inspection free of charge prior to the Scheme Meeting during normal business hours at the registered office of Calliden.

4.8

Capital structure

As at the close of trading on 30 October 2014, the last practicable trading day before the date of this Scheme Booklet, Calliden had the following securities on issue:

- 226,683,914 fully paid ordinary shares on issue; and
- 15,431,520 Unvested Incentive Rights (which it is expected upon vesting will result in 12,318,452 existing Calliden Shares being allocated to the relevant LTI Plan participants).

Refer to section 2.6 for information regarding the manner in which the Unvested Incentive Rights will be dealt with in connection with the Scheme.

4.9

Regulatory approvals

Calliden has made an application for approval to APRA in respect of the payment of the Special Dividend for the purposes of APRA Prudential Standard GPS 110 *Capital Adequacy*. The requested approval has been received.

4.10

Outlook

The Calliden Group has provided guidance for the full year net profit after tax (NPAT) of \$7.5m to \$9.5m. This is subject to the claims experience in the remaining months of 2014. Calliden is focused on growing its agency business, developing niche agency joint ventures and improving the profitability of its insurance company.

During 2014, Calliden has been building the IT and other infrastructure required to connect CASL to contestable platforms. The initial focus of this work is on connecting to the 'Steadfast Virtual Underwriter' for business package products, which is intended to be completed in the fourth quarter of 2014.

On 1 July 2014, Calliden launched a new joint venture agency business known as 'Famous'. Famous focuses on providing insurance to motorbike enthusiasts. The agency operates over the telephone, via the internet and via motoring affinity groups.

CIL is further refining its risk selection and pricing capabilities to continue to improve the performance of its currently underwritten portfolio.

In the event that the Scheme does not proceed, Calliden's current intention is to continue its strategy of building a less volatile revenue stream from which to maximise the distribution of fully franked dividends to Calliden Shareholders.



4.11

Calliden's tax position and franking credits balance

As at the date of this Scheme Booklet, Calliden's franking credits balance is \$23.1 million. Following payment of the Special Dividend, the franking credits balance is currently expected to be \$18.2 million. Future profits could be distributed to Calliden Shareholders on a fully franked basis up to the limit of Calliden's franking credits balance. If the Scheme is approved and implemented, Calliden Shareholders will no longer benefit from Calliden's franking credits balance.

As at 30 June 2014, the Calliden Group has unused tax losses of \$68.2 million that are not subject to any dispute with the ATO and a further \$167.5 million of unused tax losses for which Calliden is in dispute. The unused tax losses are subject to an available loss fraction of 87%, meaning that Calliden's effective tax payable rate is approximately 4% and is expected to remain at that level for at least another five years if the Scheme is not approved and implemented. The availability of these tax losses going forward is subject to Calliden continuing to satisfy the 'continuity of ownership test' or the 'same business test', both as prescribed under applicable tax rules.

4.12

Publicly available information about Calliden

As an ASX listed company and a "disclosing entity" under the Corporations Act, Calliden is subject to regular reporting and continuous disclosure obligations. Broadly, these disclosure obligations require Calliden to announce price sensitive information to ASX as soon as it becomes aware of the information, subject to exceptions for certain confidential information. Calliden's most recent announcements are available on its website (www.calliden.com.au). Further announcements concerning Calliden will continue to be made available on the website after the date of this Scheme Booklet.

ASX maintains files containing publicly available information about entities listed on its exchange. Calliden's files are available for inspection at ASX during normal business hours and are available on the ASX website (www.asx.com.au).

Additionally, copies of documents lodged with ASIC in relation to Calliden may be obtained from or inspected at ASIC. Please note ASIC may charge a fee in respect of such services.

The following documents are available for inspection free of charge prior to the Scheme Meeting during normal business hours at the registered office of Calliden:

- constitution of Calliden;
- Calliden's annual report for the year ended 31 December 2013 (being the full financial report most recently lodged with ASIC before the registration of this Scheme Booklet);
- Calliden's financial report for the half year ended 30 June 2014; and
- any announcements given to ASX by Calliden after the lodgement by Calliden of the financial report for the half year ended 30 June 2014 and before the date of this Scheme Booklet.

A substantial amount of information about Calliden, including financial information and releases to ASX, is available in electronic form on Calliden's website (www.calliden.com.au).

5. INFORMATION ABOUT STEADFAST

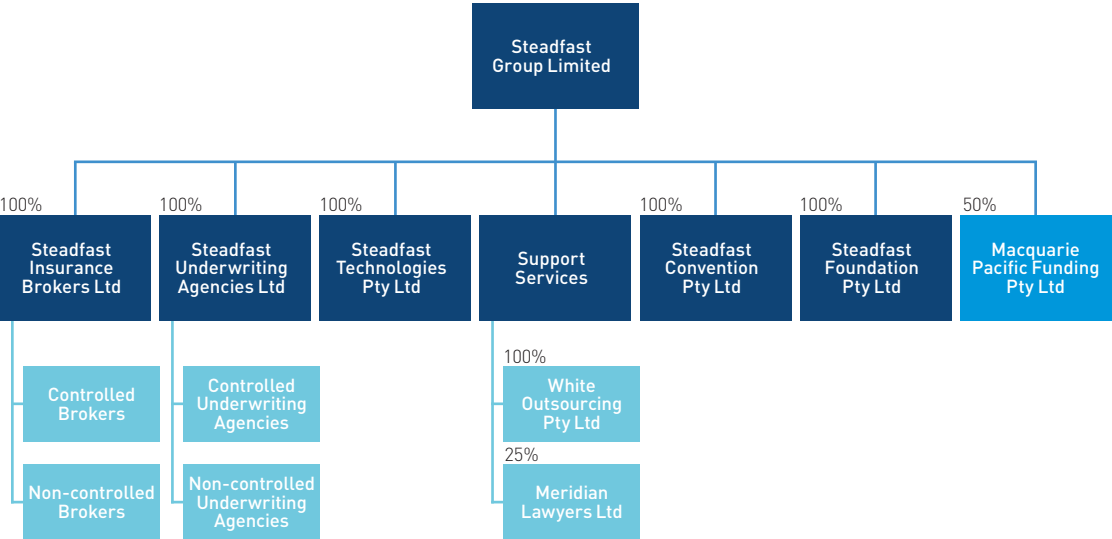
5.1 Overview of Steadfast

Steadfast, established in 1996, is the largest general insurance broker network in Australasia. It provides services to insurance broker businesses across Australia, New Zealand and Singapore. Steadfast's network of brokers and underwriting agencies generated annual billings of over \$5 billion in 2014. The network produces almost half of Calliden's gross written premium. Steadfast also operates as a consolidator through its equity interests in a number of insurance broker businesses, a reinsurance broker, underwriting agencies, other complementary businesses and a joint venture in Macquarie Pacific Funding.



5.2 Corporate structure

The following diagram shows the key entities in the corporate structure of Steadfast.



5.3

Overview of operations

Steadfast's business model revolves around its 'Network Brokers', the provision of services to the Steadfast Network and its equity interests in some of these businesses. To leverage the distribution power of the Steadfast Network, Steadfast has acquired equity interests in vertically integrated businesses listed on the right.

It receives marketing and administration fees from Strategic Partners when its Network Brokers sell their products.

Steadfast also has (as at 4 September 2014) equity interests in 54 insurance broking businesses (after combining some brokers post its initial public offer), nine underwriting agencies, a life broking business, a reinsurance broking business, a premium funder and ancillary service organisations.

The 306 Steadfast Network Brokers source products from insurance companies and underwriting agencies on behalf of their clients, select appropriate insurance in terms of coverage, flexibility and pricing, assist customers in submitting and negotiating claims, and offer wholesale broking facilities.

Steadfast 

Steadfast 
UNDERWRITING
AGENCIES

Steadfast Re 
Reinsurance Brokers

Steadfast Life 



Macquarie
Pacific
Funding



WHITE OUTSOURCING

MERIDIAN
LAWYERS

5. INFORMATION ABOUT STEADFAST

(continued)

5.4

Steadfast Directors and Senior Management

(a) Board of Directors

FRANK O'HALLORAN AM

INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIRMAN

Frank has over 35 years' experience at QBE Insurance Group where he was CEO from 1998 until 2012. He also worked with Coopers & Lybrand for 13 years where he started his career as a chartered accountant. Frank has held a number of positions in the Insurance Council of Australia, including President in 1999-2000, and was inducted into the International Insurance Hall of Fame in 2010.

Frank has been a director since 21 October 2012.

ROBERT KELLY

MANAGING DIRECTOR & CEO

Robert co-founded Steadfast and has over 45 years' experience in the insurance industry. He was named the second Most Influential Person in Insurance by Insurance News in 2014. Robert is a Qualified Practicing Insurance Broker, a Fellow of NIBA, a Senior Associate Certified Insurance Professional and holds a Diploma in Financial Services and in Occupational Health and Safety and a Graduate Diploma in Australian Risk Management.

Robert has been a director since 18 April 1996.

DAVID LIDDY

INDEPENDENT NON-EXECUTIVE DIRECTOR

David has over 43 years' experience in banking, including postings in London and Hong Kong. He was Managing Director of Bank of Queensland from 2001 to 2011. David is currently Chairman of Collection House Ltd, Financial Basics Foundation and Community Foundation and a Director of Emerchants Ltd. He is a Senior Fellow of the Financial Services Institute of Australasia and a Fellow of the Australian Institute of Company Directors.

David has been a director since 1 January 2013.

ANNE O'DRISCOLL

INDEPENDENT NON-EXECUTIVE DIRECTOR

Anne has over 30 years of business experience, having qualified as a chartered accountant in 1984. She was CFO of Genworth Australia from 2009 to 2012 and spent over 13 years with Insurance Australia Group. Anne is on the boards of the Commonwealth Bank insurance subsidiaries, is a fellow of ANZIIF, and a graduate of the Australian Institute of Company Directors and Harvard's Advanced Management Program.

Anne has been a director since 1 July 2013.

PHILIP PURCELL

INDEPENDENT NON-EXECUTIVE DIRECTOR

Philip has over 40 years' experience in the insurance and legal industries. He has been a partner at Dunhill Madden Butler, PricewaterhouseCoopers Legal and Ebsworth & Ebsworth and has held two board positions with GE in Australia. Philip currently is a Consultant to the international law firm Holman Fenwick Willan and provides advice to clients who are engaged in mediation of commercial disputes.

Philip has been a director since 1 February 2013.

GREG RYNNENBERG

INDEPENDENT NON-EXECUTIVE DIRECTOR

Greg has 38 years of experience in the general insurance broking industry with 30 years spent running his own business, East West Group. East West Group is a Network Broker. Greg is a Qualified Practicing Insurance Broker, Fellow of NIBA and an Associate of ANZIIF. He holds an Advanced Diploma in Financial Services (General Insurance Broking). Greg was named NIBA Queensland Broker for 2014.

Greg has been a director since 10 August 1998.

JONATHAN UPTON

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Jonathan has 41 years' experience in insurance broking. For the past 34 years, he has been running his own business, Steadfast IRS, in which Steadfast holds a majority equity interest. Jonathan is a Qualified Practicing Insurance Broker, an Associate of NIBA, an Associate Fellow of The Australian Institute of Management, a Member of the Australian Institute of Company Directors and holds a Diploma of Financial Services (General Insurance Broking).

Jonathan has been a director since 9 May 2005 and retired at the 2014 annual general meeting on 29 October 2014.

(b) Senior Executive Management Team**ROBERT KELLY**

MANAGING DIRECTOR & CEO

See above for details.

LINDA ELLIS

GROUP COMPANY SECRETARY & GENERAL COUNSEL

Linda joined Steadfast in 2013. She is a lawyer with over 15 years' experience at international law firms including Mallesons Stephen Jaques (now King & Wood Mallesons), Atanaskovic Hartnell and Clifford Chance. Linda has diverse experience in corporate and commercial law, including mergers and acquisitions, capital markets and corporate governance. She is admitted to practise as a solicitor of the Supreme Court of NSW.

STEPHEN HUMPHRYS

CHIEF FINANCIAL OFFICER

Stephen joined Steadfast in 2013. He has over 25 years' experience as a chartered accountant and extensive experience in acquisitions and integrations. As Managing Director of Moore Stephens Sydney for 10 years and Chairman of Moore Stephens Australasia for three, Stephen took Moore Stephens into the top 10 accounting firms in Australia. Stephen is a Fellow of the Institute of Chartered Accountants and a registered tax agent.

DANA WILLIAMS

CHIEF OPERATING OFFICER

Dana joined Steadfast in January 2014 and was promoted to COO in June. Her focus is on working with the brokers in which Steadfast holds an equity interest to improve their operations as well as acquisitions. Dana has 25 years' business experience, including 15 in brokerage, insurance, reinsurance and underwriting agencies. She has worked at international insurance brokerages Hub International and Marsh. Dana holds a Bachelor of Engineering, an MBA and is a CPA.

5.5**Regulatory approvals**

Steadfast lodged with APRA an application for approval under the *Financial Sector (Shareholdings) Act 1998* (Cth) to hold a stake of 100% in Calliden and CIL temporarily as part of the on-sale to MHA.

Steadfast also applied to APRA for a go-ahead decision under the *Insurance Acquisitions and Takeovers Act 1991* (Cth) to change the Calliden Board as part of the on-sale to MHA.

The requested approvals and go-ahead decision have been received.

In addition, the ACCC has confirmed that it does not intend to conduct a public review of the proposed acquisition of Calliden by Steadfast.

5.6**Intentions of Steadfast if the Scheme is implemented****(a) On-sale to MHA**

As Steadfast is not an insurance group, it has arranged the sale of the On-Sale Business so that CIL is held by such a group, namely Munich Re. In this regard, on the same date that Calliden and Steadfast entered into the Scheme Implementation Deed, Steadfast entered into a Share and Business Acquisition Agreement with MHA, a subsidiary of Munich Re, which will acquire the On-Sale Business (including CIL) immediately following implementation of the Scheme. Accordingly, it is contemplated that Steadfast will not at any time have control of the insurance operations other than temporarily. This is a significant feature of the Share and Business Acquisition Agreement. The parties are to use best endeavours to notify (by the Business Day following the Scheme Meeting) their readiness to complete the sale and purchase of the On-Sale Business. If this is not possible, timing of implementation of the Scheme will be affected.

A summary of the Share and Business Acquisition Agreement is contained in section 2.8(c).

5. INFORMATION ABOUT STEADFAST

(continued)

(b) Steadfast position

Upon implementation of the Scheme, Steadfast will own Calliden and its remaining subsidiaries and associates. These will comprise of the operations of the remaining agency businesses, including all of ARGIS Insurance, Calliden Home, Calliden Warranty, Dawes Special Motor, IUA Business Interruption, Mansions of Australia and Calliden Accident & Health as well as other smaller agency services and joint ventures (unless on sold or discontinued by Calliden prior to the Implementation Date), and 46.5%³ of the shares in QUS which operates the QUS Strata Business.

(c) Operations

Steadfast will enter into a Transitional Services Agreement with MHA to ensure that shared services including claims, finance and IT can continue to support both the general insurance and agency operations. The transitional arrangement will also cover the existing offices leases in North Sydney and Melbourne.⁴

Over time and after detailed review, Steadfast will seek to merge back office operations such as finance, IT, HR, and claims, with its existing underwriting operations where it makes sense to do so and where synergies can be realised. Otherwise, Steadfast does not intend to make any major changes or dispose of any part of the agency business.

If the Scheme is approved and implemented, it is currently intended that Calliden's operations will remain in both Sydney and Melbourne.

(d) Employees

Steadfast considers the employees of Calliden to be a key part of the business.

Steadfast believes the acquisition presents a significant opportunity to combine the strengths of Calliden's and Steadfast's businesses. Steadfast's employment decisions will be made in the context of its business model and the expected growth of the Steadfast Group. Steadfast intends, where possible, to retain high performing personnel. It is expected that some redundancies will occur, and Steadfast will have proper regard to the terms of existing employment contracts.

(e) Directors

Steadfast intends to reconstitute the Calliden Board with representatives of Steadfast.

(f) Intentions generally

The above sets out Steadfast's current intentions in relation to the major operations of the agency businesses that Steadfast will acquire through the Scheme and employees of the Calliden Group. In the run up to the Implementation Date and after the Scheme is implemented, it intends to conduct a detailed review of operations. Additional or more specific plans may be formed as a result of the findings of that review.

(g) Other material information

Except as set out in this section, so far as Steadfast is aware, there is no information relating to Steadfast, MHA or Calliden, or Steadfast's intentions regarding Calliden, Calliden's employees and the funding of the Scheme Consideration material to the making of the decision by a Calliden Shareholder.

As at the date of this Scheme Booklet, Steadfast is not aware of any circumstances that would cause any Condition Precedent not to be satisfied.

5.7

Interests in Calliden Shares

As at the date of this Scheme Booklet, neither Steadfast nor any of its Associates hold any interest in Calliden Shares. For completeness, Frank O'Halloran's wife holds a portfolio interest in Calliden Shares, totalling 40,000 Calliden Shares acquired in two equal tranches in May 2006 and August 2006, respectively.

³ As at 4 September 2014.

⁴ Due to the commitment to integrate the business with as little disruption as practicable, it is not possible at this early stage prior to an in-depth strategic review of the businesses to estimate how long the Transitional Services Agreement will continue.

6. INFORMATION ABOUT MHA AND MUNICH RE



6.1

Rationale for on-sale transaction

On the same date that Calliden and Steadfast entered into the Scheme Implementation Deed, Steadfast entered into a Share and Business Acquisition Agreement with MHA, a wholly owned direct subsidiary of Munich Re, which will either directly or via wholly owned subsidiaries acquire the On-Sale Business immediately following implementation of the Scheme.

Munich Re via its primary insurance subsidiary, Great Lakes Australia (GLA), the Australian branch of Great Lakes, will support Steadfast in its proposed acquisition of 100% of the Calliden Shares.

Additionally, GLA, the Australian branch of Great Lakes, will secure access to the commercial underwriter platforms and expert personnel, previously part of Calliden, to advance GLA's business pack and commercial product distribution.

As part of the transaction, MHA will build on the existing Calliden portfolio acquired to establish a new business pack and commercial managing general agent to service all intermediaries in Australia. In addition, GLA and Steadfast will seek opportunities to develop niche products specifically tailored to current-market commercial insurance needs.

The proposed transaction represents a new chapter in the long history of co-operation between Munich Re and Calliden, initially with Munich Re being Calliden's largest reinsurance partner since 2005 and more recently with GLA's role as an insurance supporter of Calliden's agency business since 2012.

6.2

Information about the Munich Re group

(a) About MHA

MHA is a company incorporated in Australia. It is a wholly owned direct subsidiary of Munich Re and is Munich Re's agent in Australia. Its net assets as at 30 June 2014 were around \$1.4 billion.

(b) About Munich Re

Munich Re is a reinsurance company organised under the laws of Germany and listed on the Frankfurt Stock Exchange and traded on all other German stock exchanges, including XETRA (electronic trading platform). Its market capitalisation as at 31 December 2013 was around Euro 28.7 billion.⁵

Munich Re is authorised by APRA under the Insurance Act to conduct general reinsurance business through a branch in Australia.

Other subsidiaries of Munich Re are also authorised by APRA to conduct insurance business in Australia.

Great Lakes is authorised by APRA to conduct general insurance business in Australia through its branch, GLA. GLA's gross written premium for the 12 months ending 30 June 2014 was around \$501 million, including around \$76 million sourced from Calliden.⁶

Munich Reinsurance Company of Australasia Limited is authorised by APRA to conduct life reinsurance business in Australia.

(c) About GLA

GLA is the Australian branch of Great Lakes. Great Lakes is a wholly owned subsidiary of Munich Re.

Great Lakes was originally formed in Canada in 1951. Munich Re acquired the Toronto-based company in 1975 and established Great Lakes in the UK in 1987 with the aim of accessing and better servicing the London niche general insurance market. Great Lakes Reinsurance (UK) PLC trading as Great Lakes Australia was registered as a foreign company in Australia on 31 October 2007. GLA has been supporting selected underwriting agency partners since 2008.

⁵ Audited Financial Statements for year ending 31 December 2013.

⁶ As at 5 September 2014.

6. INFORMATION ABOUT MHA AND MUNICH RE

(continued)

6.3

Funding arrangements

The acquisition of the On-Sale Business by MHA will be funded internally by way of an inter-company transfer of funds from Munich Re to MHA prior to the Second Court Date and, in accordance with the Share and Business Acquisition Agreement, MHA will use best endeavours to deliver a notice confirming that it is ready, willing and able to complete the acquisition of the On-Sale Business before the Second Court Date.

6.4

Regulatory approvals

MHA lodged with APRA applications under the *Financial Sector (Shareholdings) Act 1998* (Cth) and the *Insurance Acquisitions and Takeovers Act 1991* (Cth) in relation to MHA's proposal to acquire a 100% stake in CIL under the Share and Business Acquisition Agreement.

The requested approvals have been received.

MHA also applied to FIRB for a confirmation of no objection under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) in relation to MHA's proposal to acquire 100% of CIL.

The requested notice of no objection has been received.

6.5

Ongoing relationship between MHA and Steadfast

Steadfast has agreed with MHA for MHA to own the CIL sale assets and for Steadfast to own other agency assets of Calliden. As a consequence, Steadfast will enter into a Transitional Services Agreement with MHA so that once the assets are split, MHA and Steadfast each receives from the other information technology and other services currently part of the Calliden Group to take reasonable steps to ensure that the relevant businesses will continue to be supported.

6.6

Intentions, employees and other information

The employees required for the ongoing operations of the On-Sale Business will be offered new employment contracts on terms that are overall no less favourable to their current entitlements. With reference to employees who accept a new offer of employment, MHA fully intends to honour all existing employment arrangements including entitlements under incentive schemes and all leave and other accrued entitlements. It is MHA's intention to retain sufficient staff so as to ensure that the operations continue to provide the quality service proposition and professional support to the market.

With respect to the current CIL⁷ insurance operations, any new and renewed policies will continue to be underwritten by CIL post-transaction as required to provide a smooth transition of any renewals of policies.⁸ In the event that there are any potential CIL policy types that are not required by Munich Re, then Munich Re will endeavour to facilitate that these policies will be offered renewal by a new carrier. GLA will seek to conduct a portfolio transfer from CIL to GLA at an appropriate future date.

The newly established business pack and commercial managing general agency will operate on a stand-alone basis as a separate agency and service all intermediaries in Australia.

Except as set out in this section 6, so far as MHA, Munich Re and GLA are aware, there is no information relating to MHA, Munich Re or GLA, regarding Calliden, Calliden's employees and the funding of the acquisition of the On-Sale Business material to the making of the decision by a Calliden Shareholder.

As at the date of this Scheme Booklet, Munich Re, MHA and GLA are not aware of any circumstances that would cause any Condition Precedent not to be satisfied.

6.7

Interests in Calliden Shares

As at the date of this Scheme Booklet, neither MHA nor any of its Associates hold any interest in Calliden Shares.

⁷ CIL insurance paper is unrated.

⁸ Subject to relevant Underwriting Guidelines.

7. TAXATION IMPLICATIONS



7.1 Taxation implications

This part of the Scheme Booklet provides an overview of the main Australian income tax implications for certain Calliden Shareholders as a result of the implementation of the Scheme, which involves the payment of both the Scheme Consideration and the Special Dividend.

The information provided below is not applicable to all Calliden Shareholders. It is relevant to Calliden Shareholders who hold their Calliden Shares on capital account for income tax purposes. The information below does not apply to Calliden Shareholders who:

- (a) hold their Calliden Shares on revenue account (such as share trading entities) or as trading stock;
- (b) are temporary residents of Australia for Australian taxation purposes;
- (c) hold their Calliden Shares in connection with a business carried on through a permanent establishment outside their country of residence;
- (d) own Calliden Shares that are held on trust as part of the LTI Plan by CPU Share Plans Pty Limited ABN 20 081 600 875 in its capacity as trustee for the 'Calliden Group Limited Long-Term Incentive Plan Trust'; or
- (e) are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their Calliden Shares.

The taxation overview set out below takes into account legislation enacted or proposed as at the date of this Scheme Booklet, the interpretation of such laws by the courts and relevant administrative practices.

This taxation overview does not constitute taxation advice and should not be relied upon as such. It does not purport to be a complete analysis or to identify all potential related tax consequences.

All Calliden Shareholders are advised to obtain independent taxation advice in respect of the Scheme and the payment of both the Scheme Consideration and the Special Dividend which takes into account their personal circumstances.

Calliden has applied for a Class Ruling from the ATO in respect of a number of taxation implications for Calliden Shareholders (this includes relevant LTI Plan participants who have been allocated existing Calliden Shares after the date of this Scheme Booklet) in respect of the Scheme and the payment of the Special Dividend. The information provided below is consistent

with that application. Calliden Shareholders should follow the ATO's Class Ruling once it is published on the ATO website (www.ato.gov.au).

7.2 Special Dividend

If the Scheme is approved, a Calliden Shareholder who is registered in the Register as the holder of Calliden Shares on the Special Dividend Record Date will be paid a Special Dividend of \$0.05 for each Calliden Share on 19 December 2014.

The Special Dividend is currently expected to be fully franked.

(a) Taxation implications for Australian resident Calliden Shareholders

Calliden Shareholders who are Australian tax residents and are entitled to receive the Special Dividend should include the amount of the Special Dividend as assessable income. The amount should be included in their tax return for the income year in which the dividend payment is received (being the 2014-2015 income tax year). This is expected to be confirmed in the Class Ruling.

Calliden Shareholders who receive the Special Dividend will also receive any attached franking credits. The associated franking credits should also generally be included in the assessable income of each Calliden Shareholder who receives the Special Dividend.

A Calliden Shareholder may claim a tax offset for the amount of the franking credit received if the "holding period" rule is satisfied by the Calliden Shareholder. The holding period rule requires that the Calliden Shareholder holds their Calliden Shares "at risk" for a continuous period of at least 45 days during a prescribed period.

Calliden Shareholders who are individuals should be exempt from applying the holding period rule where their total franking credit tax offset entitlement in respect of all dividends for the 2014-2015 income tax year does not exceed \$5,000. However, this exemption is not expected to apply to a dividend which is subject to the "related payments" rule, discussed below.

The holding period rule is subject to the related payments rule. The related payments rule operates where the Calliden Shareholder is under an obligation to pass the benefit of the Special Dividend to other persons. The related payments rule is likely to apply in respect of the Special Dividend as the Special Dividend

7. TAXATION IMPLICATIONS

(continued)

is inter-related with the entitlements of Calliden Shareholders under the Scheme.

A Calliden Shareholder will not hold the Calliden Shares "at risk" if the Calliden Shareholder holds "positions" (such as options or other hedging arrangements) which materially diminish the risks of loss or opportunities for gain in respect of those Scheme Shares. In relation to the Scheme, Calliden Shareholders will not hold their Calliden Shares "at risk" from the Scheme Record Date (which is currently expected to be 19 December 2014).

As a practical matter, a Calliden Shareholder who holds their Calliden Shares at risk for a continuous period of at least 45 days during the period from 3 November 2014 to 18 December 2014 (inclusive) should satisfy the "holding period rules" and be eligible for the franking credits and tax offset associated with the Special Dividend. Calliden Shareholders who acquire their Calliden Shares after 3 November 2014 cannot hold their Calliden Shares at risk for the requisite 45 days and are not expected to be entitled to a tax offset for the franking credits received.

The Class Ruling will confirm whether:

- (a) Calliden Shareholders will satisfy the relevant holding period rule with respect to the Special Dividend if the Calliden Shareholders hold the Calliden Shares "at risk" for the requisite period;
- (b) the related payments rule applies; and
- (c) the ATO will or will not seek to apply any integrity provisions so as to prevent Calliden Shareholders from receiving the benefit of the franking credits associated with the Special Dividend.

Calliden Shareholders should refer to the final published Class Ruling to confirm the required tax treatment in respect of the Special Dividend.

Subject to a Calliden Shareholder being eligible for the franking credits associated with the Special Dividend, the franking credits attached to the Special Dividend may be used to offset the income tax otherwise payable by a Calliden Shareholder. The integrity and anti-avoidance provisions in the applicable taxation legislation should not apply to deny or limit the availability of those credits to Calliden Shareholders receiving the Special Dividend. This issue is expected to be confirmed by the Class Ruling.

The extent to which Calliden Shareholders will be able to access the franking credit tax offset will depend on their status and specific circumstances, as outlined below. The discussion below assumes that Calliden Shareholders will satisfy the holding period and related

payment rules, as outlined above, in respect of the Special Dividend.

INDIVIDUALS AND COMPLYING SUPERANNUATION FUNDS

Calliden Shareholders who are either individuals or complying superannuation funds should be entitled to a tax offset equal to the amount of the franking credits attached to the Special Dividend they receive.

Individuals and complying superannuation funds who have franking credits in excess of their tax liability in respect of their taxable income may be entitled to a refund for an amount by which any franking credits exceed their total tax liability.

COMPANIES

Calliden Shareholders that are companies should be entitled to a tax offset equal to the amount of the franking credits attached to the Special Dividend they receive. As a result, Calliden Shareholders that are companies should not pay any additional income tax on the Special Dividend if it is fully franked.

Calliden Shareholders that are companies should also receive a credit to their franking account equal to the amount of the franking credits attaching to the Special Dividend they receive.

TRUSTS

In circumstances where there are no beneficiaries that are presently entitled to the income of a trust, a Calliden Shareholder that is the trustee of such a trust will bear the tax liability in respect of the Special Dividend and should be entitled to a tax offset equal to the amount of the franking credits attached to the Special Dividend it receives.

Where beneficiaries are presently entitled to the income of a trust, the Special Dividend and associated franking credits should flow through to those presently entitled beneficiaries. The tax treatment of both the Special Dividend and any associated franking credits in the hands of those beneficiaries will depend on the tax status of the individual beneficiaries.

(b) Taxation implications for non-resident Calliden Shareholders

Calliden Shareholders who are not Australian residents for tax purposes should not be subject to tax in Australia in respect of the Special Dividend they receive (provided that they do not hold the Calliden Shares through an Australian permanent establishment).

On the basis and to the extent that the Special Dividend will be fully franked, Calliden Shareholders who are foreign residents for tax purposes should not be subject to any Australian dividend withholding tax.



7.3

Disposal of shares

If the Scheme is approved and implemented, Steadfast will acquire 100% of the Calliden Shares.

(a) Taxation implications for Australian resident Scheme Shareholders

Capital gains tax (CGT) event A1 is expected to occur for all Scheme Shareholders when they dispose of their Scheme Shares to Steadfast under the Scheme. The Class Ruling is expected to confirm that the applicable CGT event is CGT event A1 and that the time of the event is the Implementation Date.

Scheme Shareholders will realise:

- (i) a capital gain in the 2014-15 income year if the capital proceeds from the disposal of their Scheme Shares exceed the cost base of their Scheme Shares. That capital gain may be reduced to the extent that the Special Dividend (excluding the franking credits) has been included in their assessable income (but not below zero); or
- (ii) a capital loss in the 2014-15 income year if the capital proceeds from the disposal of their Scheme Shares are less than the cost base of their Scheme Shares.

Capital gains and capital losses made by a Scheme Shareholder in an income year from all sources are aggregated to determine whether they make a net capital gain or net capital loss for that income year.

COST BASE

The cost base (or reduced cost base) of Scheme Shares should generally be the amount paid to acquire the Scheme Shares plus incidental costs of ownership (provided the costs have not previously been claimed as a tax deduction).

CAPITAL PROCEEDS

The Total Entitlements are expected to be the amount of \$0.465 for each Scheme Share. This will form part of the capital proceeds for Scheme Shareholders.

The Special Dividend should form part of the capital proceeds for Scheme Shareholders. This outcome is expected to be confirmed in the Class Ruling from the ATO.

Therefore, the capital proceeds from the disposal of Scheme Shares by a Scheme Shareholder should be \$0.465 for each Scheme Share. To the extent that Scheme Shareholders have included the Special Dividend in their assessable income, their capital gain may be reduced – see (i) above.

CGT DISCOUNT

Scheme Shareholders who are individuals, complying superannuation entities, trustees of trusts or (in limited circumstances) life insurance companies may be entitled to reduce the amount of any capital gain made on the disposal of their Scheme Shares if they have held their Scheme Shares for at least 12 months before the Implementation Date (the reduction is referred to as the “CGT discount”). The CGT discount is applied only after available capital losses have been applied to reduce the capital gain.

The CGT discount rate is 50% for individuals and trustees, and 33.3% for complying superannuation entities and life insurance companies.

The CGT discount is not available to Scheme Shareholders that are companies or to Scheme Shareholders who are individuals, trusts or complying superannuation funds who acquired their Scheme Shares before 21 September 1999 where they choose to include indexation when calculating the cost base of their Scheme Shares.

(b) Taxation implications for non-resident Scheme Shareholders

Scheme Shareholders who are not residents of Australia for tax purposes, who do not carry on a business in Australia at or through a permanent establishment and do not (together with their associates) hold more than 10% of the total number of Calliden Shares should not be subject to Australian CGT in respect of the disposal of their Scheme Shares to Steadfast under the Scheme.

Non-resident Scheme Shareholders should obtain their own independent taxation advice regarding the taxation implications of the Scheme (including the receipt of the Scheme Consideration and the Special Dividend) in Australia and their country of residence.

8. RISK FACTORS

8.1

Introduction

The outline of risks in this section is a summary only and should not be considered exhaustive. This section does not take into account your personal investment objectives, financial situation, taxation position or particular needs.

You should carefully consider the risk factors discussed in this section, as well as the other information contained in this Scheme Booklet, before voting on the Scheme.

The risks set out in this section 8 will only continue to be relevant to Calliden Shareholders if the Scheme does not proceed and Calliden Shareholders retain their current investment in Calliden. If the Scheme proceeds, Calliden Shareholders who are holders of record as at the Scheme Record Date and the Special Dividend Record Date will receive the Scheme Consideration and the Special Dividend, respectively, will cease to be Calliden Shareholders and will no longer be exposed to the risks set out below.

8.2

General risks

Certain risks are common to all businesses. Calliden is subject to these inherent risks and a summary of some of the more important general risks that may affect Calliden is set out below.

(a) Overview of general risks

Calliden is exposed to a number of general risks that could materially adversely affect its assets and liabilities, financial position, profits and prospects and the price and/or value of Calliden Shares. General risks may impact on Calliden in a number of ways, including, for example, by:

- increasing the costs associated with the provision of Calliden's insurance services;
- causing Calliden's customers not to renew their insurance contracts;
- causing Calliden's re-insurers not to renew their reinsurance contracts or renewing them on less favourable terms; and
- prohibiting or deterring the provision of Calliden's general services.

(b) Macro-economic risks

Changes to the general economic conditions in Australia and internationally may result in a material adverse effect on the assets and liabilities, financial position, profits and prospects of Calliden and the price and/or value of Calliden Shares. These general economic conditions could include any or all of the following:

- fluctuations in international and domestic economic conditions (including fluctuations in interest rates, exchange rates and the level of inflation) which may affect Calliden's business directly or indirectly by affecting the general insurance industry or the reinsurance industry;
- increases in expenses (including wage inflation);
- changes in law and government policy or regulation affecting the general insurance industry; and
- changes to accounting standards which affect the financial performance and position reported in Calliden's financial statements.

8.3

Specific risks relating to Calliden

(a) Regulatory matters

The insurance underwriting operations of Calliden are heavily regulated and are subject to prudential supervision by APRA. Among other things, APRA requires all general insurance companies, including Calliden, to meet minimum capital requirements for their insurance operations. These regulations are stringent and are subject to change.

(b) Fiscal and monetary policy

The Reserve Bank of Australia regulates the supply of money and credit in Australia. Its policies determine, in large part, the interest rates that apply to Calliden for investing. This, in turn, determines the return that Calliden can earn on its investment assets. This can materially affect the value of financial instruments that Calliden may hold from time to time, such as debt securities. The policies of the Reserve Bank of Australia can also affect Calliden's customers, potentially increasing the risk that customers may not renew insurance policies.

**(c) Economic**

Changes in economic conditions can affect financial results of general insurance businesses through their effect on market conditions, investment income, change in consumer demand for products and services and increased claims.

(d) Share ownership

The value of shares in a listed company is subject to fluctuations in the share market, which can be precipitated by a wide variety of factors.

(e) Competition

Calliden competes with a large number of general insurance and other financial services companies, such as banks, for individual customers. Major factors contributing to competition include the entry of new participants, consolidation of existing participants and the development of new methods of distribution.

(f) Operational risk

General insurance businesses are exposed to a variety of generalised risks, arising from process error, fraud, systems failure, security and physical protection, customer services, staff skills and performance, and product development and maintenance. The failure to adequately manage these operational risks could have a material adverse effect on Calliden's financial performance and condition.

(g) Personnel risk

General insurance businesses are dependent on the efforts and abilities of key personnel and as such any loss of a number of key personnel may have a material adverse effect on the financial performance and condition of Calliden.

(h) Systems risk

General insurance businesses rely to a significant degree on information technology systems, with day-to-day operations of each aspect of business being computer based, as are the systems used to calculate and monitor underwriting risks, reserve modelling and reinsurance arrangements. Failure of such systems could result in business interruption, the loss of customers, damaged reputation and weakening of competitive position and could therefore adversely affect Calliden.

(i) Brands

Brands can be particularly important to sourcing new and renewal business for general insurance businesses. Any damage to the reputation of such brands could have an adverse impact on the financial performance and condition of Calliden.

(j) Capital and funding requirements

General insurance businesses cannot provide assurances that additional capital or liquidity will not be required in the future nor that appropriate capital or funding, if and when needed, will be available on favourable terms. Significant disruption to credit markets could have a material adverse effect on Calliden's financial performance and viability. It could impact Calliden's ability to obtain debt finance, fund operations, invest in new projects and respond to competitive pressures.

(k) Investment income

Investment income relating to investment portfolios supporting liabilities arising from general insurance businesses may have a material adverse effect on the financial performance and condition of such businesses.

(l) Catastrophes and large individual risk losses

General insurance businesses are subject to claims and policy benefits arising from catastrophes and large individual risk losses caused by natural and man-made events or disasters. These events are inherently unpredictable in terms of their incidence and severity.

(m) Climate change

Climate change might lead to more significant and frequent weather related claims. Climate change may adversely impact the performance of general insurance businesses.

(n) Insurance agents and brokers

Calliden has relationships with and distributes products through external insurance agents and brokers. As a result, that part of Calliden's business is reliant on those insurance agents and brokers to provide the feedback on market conditions and to generate demand through their marketing efforts. The failure, inability or unwillingness of insurance agents or brokers to successfully market such products, or the inability of these counterparties to meet their obligations, could have a material adverse effect on the financial performance and condition of Calliden's business.

8. RISK FACTORS

(continued)

(o) Escalation in claims costs and adverse movements in premium rates

Premium and claims trends in general insurance are cyclical in nature. Classes of general insurance, in particular commercial long-tail classes, may be subject to rapid escalation in the cost of claims and/or falls in premium rates, creating significant losses for general insurers in a given market. The causes of such adverse trends cannot be predicted nor in general controlled and may have a material adverse impact on the financial performance and condition of general insurance businesses.

(p) Estimation of insurance liabilities

Provisions for claims and policy benefits do not represent an exact calculation of liability, but rather an estimate of the expected ultimate cost based on actuarial and statistical projections. Insufficient provisions for such liabilities could have a material adverse effect on the financial performance and condition of Calliden's business.

(q) Reinsurance

The availability, amount and cost of reinsurance depend on prevailing market conditions, in terms of price and available capacity, and may vary significantly. There are also risks associated with the determination of proper levels of outwards reinsurance protection, the cost of such reinsurance, the financial security of reinsurers and reinsurers disputing or defaulting on their obligation to pay valid claims.

(r) Litigation

General insurance businesses are exposed to litigation relating to policies underwritten by them. Policyholders and other third parties such as customers, regulators, employees, financial ombudsmen and brokers may, in the normal course of business, commence or threaten litigation against Calliden either on an individual or class action basis. Such matters may have an adverse effect on Calliden's reputation and may divert financial and management resources from more beneficial uses.

In addition, there can also be no assurances that courts will not expand the basis upon which general insurance businesses may suffer liability in connection with policies written or that the basis for calculation of damages will not change. Both of these possibilities may have a material adverse effect on insurance businesses' results.

(s) Changes in government policy or regulation

General insurance businesses are subject to extensive legislation, regulation and supervision by federal and state regulatory organisations. This regulatory regime is complex and is subject to change. Changes in government policy and legislation or regulation could have a material adverse effect on Calliden's business.

(t) Taxation

Either federal or state/territory governments may change existing or introduce new taxes, duties or other charges on general insurance. The ATO and state/territory equivalents may either change or introduce rulings which have a material adverse effect on Calliden.

9. ADDITIONAL INFORMATION



This section sets out the additional information required by section 412(1) of the Corporations Act and Part 3 of Schedule 8 of the Corporations Regulations but only to the extent that this information is not otherwise disclosed in other sections. This section also contains additional information that the Calliden Directors consider material to a decision on how to vote on the resolution to be considered at the Scheme Meeting.

9.1 Substantial holders

Based on filings to ASX made prior to the close of trading on 30 October 2014, the last practicable day before the date of this Scheme Booklet, the substantial Calliden Shareholders were as follows:

Substantial holders	Number of Shares	% of Shares
Australian Unity Strategic Holdings Pty Ltd	30,142,850	13.04%
Hunter Hall Investment Management Limited	24,424,282	10.77%
Challenger Financial Services Group Limited	20,732,061	9.15%
Greencape Capital Pty Ltd	18,633,622	8.22%
First Samuel Ltd	18,514,847	8.17%
NAOS Asset Management Ltd	18,064,437	7.97%
Adam Smith Asset Management Pty Ltd	13,989,823	6.17%
Greig & Harrison Pty Ltd	11,647,500	5.14%

9.2

Interests of Calliden Directors

(a) Marketable securities of Calliden held by or on behalf of Calliden Directors

The following table shows the number of Calliden Shares and other securities held by or on behalf of each Calliden Director as at 30 October 2014, the last practicable day before the date of this Scheme Booklet:

Name of Calliden Director	Number of Calliden Shares	Number of Unvested Incentive Rights
Richard Hill	1,000,000	Nil
Maurice Loomes	Nil	Nil
Jack Lowenstein	550,000	Nil
John Messenger	50,000	Nil
Anthony Connon	Nil	Nil
Nicholas Kirk	1,767,185	5,963,000 ¹

There have been no dealings by any of the Calliden Directors in any marketable securities of Calliden in the four month period ending on the date immediately before the date of this Scheme Booklet.

(b) Payments or other benefits to Calliden Directors and other officers

Except as set out below or otherwise disclosed in this Scheme Booklet, no payment or other benefit is proposed to:

- be made or given to any director, company secretary or executive officer of Calliden as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in Calliden or in a Related Body Corporate of Calliden; or
- be made or given to any director, company secretary or executive officer of any Related Body Corporate of Calliden as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in that Related Body Corporate of Calliden or in Calliden, in connection with the Scheme, other than in his or her capacity as a Calliden Shareholder.

¹ If the Scheme becomes Effective, it is expected that 4,774,159 existing Calliden Shares will be allocated to Nicholas Kirk.

9. ADDITIONAL INFORMATION

(continued)

(c) Agreements connected with or conditional on the Scheme

Other than as set out in section 2.6 in relation to the impact of the Scheme on the LTI Plan, there are no agreements or arrangements made between any Calliden Director and any other person in connection with, or conditional on, the outcome of the Scheme, other than in their capacity as a Calliden Shareholder.

(d) Relevant interests in marketable securities of Steadfast

None of the Calliden Directors hold, or has any interest in, marketable securities of Steadfast and there has been no dealing by any of the Calliden Directors in any marketable securities of Steadfast in the four months preceding 30 October 2014, the last practicable trading day before the date of this Scheme Booklet.

9.3

Interests of Calliden Directors in contracts with the Steadfast Group or MHA

No Calliden Director has interests in any contracts with Steadfast or MHA or their associated entities.

9.4

Intentions of Calliden Directors

If the Scheme is approved and implemented, the existing Calliden Board will be reconstituted in accordance with the instructions of Steadfast after the Implementation Date. Accordingly, it is not possible for the Calliden Directors to provide a statement of their intentions regarding:

- the continuation of the business of Calliden or how Calliden's existing business will be conducted;
- any major changes to be made to the business of Calliden, including any redeployment of the fixed assets of Calliden; or
- the future employment of the present employees of Calliden,

in each case, after the Scheme is implemented.

If the Scheme is approved and implemented, Steadfast will own all of the Calliden Shares and will control Calliden. Your Directors have been advised that the intentions of the Steadfast Group are as set out in section 5.6.

9.5

Effect of Scheme on creditors

Calliden has paid and is paying all its creditors within normal terms of trade. It is solvent and is trading in an ordinary commercial manner.

9.6

No unacceptable circumstances

The Calliden Directors believe that the Scheme does not involve any circumstances in relation to the affairs of Calliden that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

9.7

Regulatory relief

(a) ASIC

Paragraph 8302(h) of Part 3 of the Corporations Regulations requires an explanatory statement (such as this Scheme Booklet) to set out, whether, within the knowledge of the directors of the company, the financial position of the company has materially changed since the date of the last balance sheet laid before the company in general meeting or sent to shareholders in accordance with sections 314 or 317 of the Corporations Act and, if so, full particulars of any change. Calliden's financial year begins on 1 January and ends on 31 December. Accordingly, the date of the last balance sheet laid before the company in general meeting was 31 December 2013. ASIC has granted Calliden relief from this requirement so that this Scheme Booklet need only set out whether, within the knowledge of the Calliden Directors, the financial position of Calliden has materially changed since 30 June 2014, being the date of its reviewed half year financial statements for the 26 weeks ended on 30 June 2014.

(b) ASX

As at 30 October 2014, the last practicable day before the date of this Scheme Booklet, it is not anticipated that any other ASX consents or approvals are necessary to implement the Scheme.



9.8

Consents and disclaimers

(a) Consents

Computershare has given and has not, before the time of registration of this Scheme Booklet by ASIC, withdrawn its written consent to be named in the form and context in which it is named.

Lonergan Edwards has given and has not, before the time of registration of this Scheme Booklet by ASIC, withdrawn its written consent to be named in the form and context in which it is named and to the inclusion of its Independent Expert's Report in this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that report in the form and context in which they appear.

Hall & Wilcox has also given and has not, before the time of registration of this Scheme Booklet by ASIC, withdrawn its written consent to be named in this Scheme Booklet as the Australian legal adviser in the form and context in which it is so named. Hall & Wilcox has also given, and has not, before the time of registration of this Scheme Booklet by ASIC, withdrawn its consent to the inclusion of section 7 in this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that section in the form and context in which they appear. Hall & Wilcox has not advised on the laws of any foreign jurisdiction. Hall & Wilcox has not provided any taxation advice in relation to any jurisdiction other than Australia.

Steadfast has given, and has not withdrawn before the time of registration of this Scheme Booklet by ASIC, its written consent to be named in this Scheme Booklet in the form and context in which it is named and its consent to the inclusion of the Steadfast Information, on the basis set out in the section entitled "Important Notices" and as set out in the Scheme Implementation Deed in Annexure B.

MHA has given, and has not withdrawn before the time of registration of this Scheme Booklet by ASIC, its written consent to be named in this Scheme Booklet in the form and context in which it is named, and it consents to the inclusion of the MHA Group Information, on the basis set out in the section entitled "Important Notices" and as set out in the Scheme Implementation Deed in Annexure B.

(b) Disclaimers

Each person named in section 9.8(a):

- 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:
 - Lonergan Edwards, in relation to the Independent Expert's Report (as set out in Annexure A to this Scheme Booklet);
 - Hall & Wilcox, in relation to section 7 of this Scheme Booklet;
 - MHA, in relation to the MHA Group Information; and
 - Steadfast, in relation to the Steadfast Information; and
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, and takes no responsibility for, any part of this Scheme Booklet, other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party (as specified in section 9.8(a)).

9.9

Foreign jurisdictions

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. Calliden disclaims all liabilities to such persons.

Calliden Shareholders who are nominees, trustees or custodians are encouraged to seek independent advice as to how to they should proceed.

No action has been taken to register or qualify this Scheme Booklet or any aspect of the Transaction in any jurisdiction outside of Australia.

9. ADDITIONAL INFORMATION

(continued)

9.10

No other material information

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme being information that is within the knowledge of any Calliden Director or any director of a Related Body Corporate of Calliden that has not previously been disclosed to Calliden Shareholders.

9.11

Supplementary disclosure

Calliden will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of this Scheme Booklet and the Effective Date:

- a material statement in this Scheme Booklet is false or misleading in a material respect;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter included in this Scheme Booklet; or
- 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 this Scheme Booklet.

Depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, Calliden may publish any supplementary document by:

- making an announcement on ASX;
- posting the supplementary document to Calliden Shareholders at their registered address as shown in the Register; or
- posting a statement on Calliden's website (www.calliden.com.au),

as Calliden in its absolute discretion considers appropriate.

10. GLOSSARY

10

10.1

Definitions

The following defined terms used throughout this Scheme Booklet have the meaning set out below unless the context otherwise requires.

Term	Definition
ACCC	means the Australian Competition and Consumer Commission.
APRA	means the Australian Prudential Regulation Authority.
ARGIS Insurance	means farm insurance underwritten and distributed by CASL as agent for GLA.
ASIC	means the Australian Securities and Investments Commission.
Associate	has the meaning given to that term in section 12 of the Corporations Act.
ASX	means ASX Limited, or where the context requires, the financial market operated by it known as the 'Australian Securities Exchange'.
ASX Listing Rules	means the listing rules of ASX as amended, varied or waived from time to time.
ATO	means the Australian Taxation Office.
Business Day	means a business day as defined in the ASX Listing Rules.
Business Pack and Commercial Agencies Businesses	means the two Calliden Group insurance agency businesses known as Calliden Business Package and Calliden Commercial (which includes industrial special risks as well as general and products liability) respectively underwritten and distributed by CASL in each case as agent for GLA excluding, for the avoidance of doubt, ARGIS Insurance.
Calliden	means Calliden Group Limited ACN 061 215 601.
Calliden Accident & Health	means corporate accident and health insurance underwritten and distributed by CASL as agent for ACE Insurance Limited.
Calliden Agency Business	means: a. all share capital in and the business of CASL; and b. the Calliden agency businesses (except to the extent they are part of the On-Sale Business).
Calliden Board	means the board of directors of Calliden.
Calliden Directors or your Directors	means each member of the Calliden Board.
Calliden Group	means Calliden and its Subsidiaries.
Calliden Home	means home and contents insurance underwritten and distributed by CASL as agent for CIL.

10. GLOSSARY

(continued)

Term	Definition
Calliden Material Adverse Change	<p>means a Specified Event which individually, or when aggregated with other Specified Events of a similar kind or category, has resulted in:</p> <ol style="list-style-type: none"> the Calliden Group consolidated NTA being less than: <ol style="list-style-type: none"> \$39.95 million, less any Special Dividend or other distributions declared, or determined to be payable, or paid, by Calliden on or after the date of the Scheme Implementation Deed; or the consolidated net profit before tax of the Calliden Group from 1 January 2014 to 30 November 2014 (as adjusted in accordance with the Scheme Implementation Deed) being less than \$3.30 million, in each case calculated in accordance with the provisions of the Scheme Implementation Deed, but does not include any matter, event, circumstance or change: <ol style="list-style-type: none"> fairly disclosed to Steadfast during due diligence prior to the date of the Scheme Implementation Deed; occurring as a result of any matter, event or circumstance required by the Scheme Implementation Deed, the Scheme or the transactions contemplated by them (including any reasonable costs incurred as a result of implementing the Scheme); occurring as a result of fluctuations to the working capital of the Calliden Group in the ordinary course of business; resulting from changes in the general economic conditions of Calliden's industry or laws in any of the jurisdictions in which Calliden operates; any change in taxation, interest rates generally or general economic conditions; as a result of a declaration or determination of the Special Dividend (or the interim dividend permitted by the Scheme Implementation Deed); that occurs with the written consent of Steadfast or to which Steadfast and MHA have not objected within five Business Days of Steadfast and MHA being notified and consulted on the matter, event, circumstance or change; or resulting from changes in generally accepted accounting principles or the interpretation of them by any Regulatory Authority, <p>provided that in respect of paragraphs b(i) and b(ii) above, and no other purpose, any Transaction costs in excess of \$2,000,000 or costs associated with the LTI in excess of \$3,400,000 are not to be taken to have been fairly disclosed for the purposes of those paragraphs.</p>
Calliden Prescribed Event	<p>means, except to the extent contemplated by the Scheme Implementation Deed or the Scheme, any of the events listed in Schedule 1 to the Scheme Implementation Deed provided that a Calliden Prescribed Event will not occur where Calliden has first notified to and consulted with Steadfast and MHA in relation to the event and Steadfast and MHA have approved in writing the proposed event or have not objected to the proposed event within five Business Days of being so notified and consulted.</p>
Calliden Share	<p>means a fully paid ordinary share in Calliden.</p>
Calliden Shareholder	<p>means each person who is registered in the Register from time to time as the holder of a Calliden Share.</p>
Calliden Share Registry	<p>means Computershare Investor Services Pty Limited ABN 48 078 279 277 of Level 4, 60 Carrington Street, Sydney, NSW 2000.</p>
Calliden Warranty	<p>means the insurance of that type for licensed builders in New South Wales, South Australia and Western Australia being underwritten and distributed by CIL as agent for the NSW Self Insurance Corporation in NSW and underwritten and distributed by CIL in SA and WA respectively and wholly reinsured to the relevant government.</p>
CASL	<p>means Calliden Agency Services Limited ACN 096 726 895.</p>

Term	Definition
CIL	means Calliden Insurance Limited ACN 004 125 268.
Competing Transaction	<p>means a transaction which, if completed, would mean a person (other than Steadfast or its Related Bodies Corporate or a member of the MHA Group) would:</p> <ol style="list-style-type: none"> directly or indirectly acquire an interest or relevant interest in or become the holder of: <ol style="list-style-type: none"> 15.1% or more of the Calliden Shares; any shares issued in the capital of CIL or CASL, or held by Calliden in QUS, except, in respect of QUS, under an employee share or bonus plan; or more than 50% of the shares in any of Calliden's Subsidiaries, including by way of takeover bid, scheme of arrangement, capital reduction, reconstruction, sale of assets, sale of shares or joint venture; acquire control of Calliden, CIL, CASL or QUS, within the meaning of section 50AA of the Corporations Act; directly or indirectly acquire the On-Sale Business (or any significant part of it) or the Calliden Agency Business (or any significant part of it); otherwise acquire or merge (including by a reverse takeover bid, joint venture or dual listed company structure) with Calliden, CIL, CASL or QUS; or enter into any agreement, arrangement or understanding requiring Calliden to abandon, or otherwise fail to proceed with, the Transaction.
Conditions Precedent	means each of the conditions referred to in clause 3.1, and set out in Schedule 2, of the Scheme Implementation Deed.
Controller	has the meaning given to that term in the Corporations Act.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Corporations Regulations	means the <i>Corporations Regulations 2001</i> (Cth).
Court	means the Federal Court of Australia (Sydney registry) or such other court of competent jurisdiction under the Corporations Act agreed in writing by Calliden and Steadfast.
Dawes	means Dawes Underwriting Australia Pty Limited ACN 050 289 506.
Dawes Special Motor	means insurance of that type underwritten and distributed by Dawes as agent for CIL.
Deed Poll	means the deed poll dated 29 October 2014 executed by Steadfast whereby, among other things, Steadfast covenants to carry out its obligations under the Scheme, as set out in Annexure D to this Scheme Booklet.
Effective	when used in relation to the Scheme, means the coming into effect, pursuant to 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, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.
Effective Date	when used in relation to the Scheme, means the date on which the Scheme becomes Effective.
End Date	means the date which is six months from the date of the Scheme Implementation Deed or such other date as is agreed between Calliden and Steadfast.
Escrow Account	means the escrow account established pursuant to the Escrow Agreement, operated by Computershare Investor Services Pty Limited.
Escrow Agreement	means the escrow agreement between Steadfast, MHA and Computershare Investor Services Pty Limited.
Exclusivity Period	<p>means the period from and including 27 August 2014, being the date of the Scheme Implementation Deed, to the earlier of:</p> <ol style="list-style-type: none"> the termination of the Scheme Implementation Deed in accordance with its terms; and the End Date.

10. GLOSSARY

(continued)

Term	Definition
Famous	means Famous Insurance Agency Pty Ltd ACN 168 467 561.
FIRB	means the Foreign Investment Review Board of Australia.
First Court Date	means the first day on which an application is made to the Court for orders under section 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme is heard.
First Court Hearing	means the hearing of the application to the Court for an order pursuant to section 411(1) of the Corporations Act to convene the Scheme Meeting to consider the Scheme.
GLA	means Great Lakes Reinsurance (UK) PLC, Australian branch trading as Great Lakes Australia ARBN 127 740 532.
Great Lakes	means Great Lakes Reinsurance (UK) PLC in its own capacity.
Implementation Date	means the fifth Business Day after the Scheme Record Date or such other date as agreed in writing between Calliden and Steadfast, which is currently expected to be 23 December 2014.
Incentive Rights	means the Performance Rights and the Retention Rights (collectively).
Independent Expert	means Lonergan Edwards.
Independent Expert's Report	means the report of the Independent Expert as set out in Annexure A to this Scheme Booklet.
Insolvent	<p>a person is Insolvent if:</p> <ol style="list-style-type: none"> it is (or states that it is) an insolvent under administration or insolvent (each as defined in the Corporations Act); or it is in liquidation, in provisional liquidation, under administration or wound up or has had a Controller appointed to any part of its property; or it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute or dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved by the other parties to the Scheme Implementation Deed); or an application or order has been made (and in the case of an application, it is not stayed, withdrawn or dismissed within 30 days), resolution passed, proposal put forward, or any other action taken, in each case in connection with that person, which is preparatory to or could result in any of (a), (b) or (c) above; or it is taken (under section 459F(1) of the Corporations Act) to have failed to comply with a statutory demand; or it is the subject of an event described in section 459C(2)(b) or section 585 of the Corporations Act (or it makes a statement from which another party to the Scheme Implementation Deed reasonably deduces it is so subject); or it is otherwise unable to pay its debts when they fall due; or something having a substantially similar effect to (a) to (g) happens in connection with that person under the law of any jurisdiction.
Insurance Act	means the <i>Insurance Act 1973</i> [Cth].
IUA	means IUA Pty Ltd ACN 127 890 243.
IUA Business Interruption	means insurance of that type underwritten and distributed by IUA for CIL until 31 October 2014 and from 1 November 2014, underwritten and distributed by CASL as agent for Lloyd's (ProSight).
Lonergan Edwards	means Lonergan Edwards & Associates Limited ACN 095 445 560 (being the Independent Expert).
LTI Plan	means Calliden's long term incentive plan under which the Incentive Rights were granted.
LTI Plan Rules	means the rules which govern Calliden's LTI Plan.

Term	Definition
Mansions of Australia	means insurance for higher value homes underwritten and distributed by CASL as agent for ACE Insurance Limited.
MHA	means Munich Holdings of Australasia Pty Limited ACN 000 159 651.
MHA Deed Poll	means the deed poll dated 27 August 2014 executed by MHA in favour of Steadfast and Calliden.
MHA Group	means MHA and/or any of its Subsidiaries, together with GLA.
MHA Group Information	means the information regarding the MHA Group which is required under the Corporations Act, the Corporations Regulations or under RG 60 to enable this Scheme Booklet to be prepared and completed, being as set out in: <ul style="list-style-type: none"> a. the answer to the question 'Who is MHA?' in the Frequently Asked Questions section; b. the answer to the question 'Have all regulatory approvals been obtained?' (to the extent that the answer relates to MHA) in the Frequently Asked Questions section; c. section 2.8(d); and d. section 6.
MHA Loan Agreement	means the loan agreement dated 27 August 2014 between MHA and Steadfast.
MHA Purchasers	means: <ul style="list-style-type: none"> a. MHA (or such wholly owned Subsidiary of MHA as may be nominated in writing by MHA at least five Business Days prior to the completion of the sale and purchase of the On-Sale Business under the Share and Business Acquisition Agreement) in respect of paragraph (a) of the definition of On-Sale Business; and b. an Australian company which will be a Subsidiary of MHA as at the time of completion of the sale and purchase of the On-Sale Business under the Share and Business Acquisition Agreement, details of which will be notified in writing to Steadfast at least five Business Days prior to completion (or such other wholly owned Subsidiary of MHA as may be nominated in writing by MHA at least five Business Days prior to the completion of the sale and purchase of the On-Sale Business under the Share and Business Acquisition Agreement), in respect of paragraph (b) of the definition of On-Sale Business.
Munich Re	means Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft, incorporated in Munich, Germany.
Network Broker	means insurance broking businesses to which Steadfast provides support services and which collectively comprise the Steadfast Network.
Notice of Scheme Meeting	means the notice of the Scheme Meeting set out in Annexure E to this Scheme Booklet.
NTA	means net tangible assets, being net assets minus intangible assets (including, but not limited to, goodwill and deferred tax benefits).
On-Sale Business	means: <ul style="list-style-type: none"> a. all share capital of CIL as well as associated infrastructure and employees (subject to the relevant employees agreeing to enter into employment agreements with MHA or a Related Body Corporate of MHA or an entity nominated by MHA); and b. the Business Pack and Commercial Agencies Businesses as well as associated infrastructure and employees (subject to the relevant employees agreeing to enter into new employment agreements with MHA or a Related Body Corporate of MHA or an entity nominated by MHA).
Performance Rights	means the performance rights granted to eligible Calliden employees pursuant to the LTI Plan.
Proxy Form	means the proxy form for the Scheme Meeting which accompanies this Scheme Booklet.
QUS	means QUS Pty Ltd ACN 122 665 310.

10. GLOSSARY

(continued)

Term	Definition
QUS Strata Business	means residential and commercial strata insurance underwritten by QUS as agent.
Register	means the register of Calliden Shareholders maintained by Calliden in accordance with the Corporations Act.
Regulatory Authority	includes: <ol style="list-style-type: none"> ACCC; APRA; ASX; ASIC; the Australian Treasury; FIRB; a government or governmental, semi-governmental or judicial entity or authority; a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and any regulatory organisation established under statute.
Related Body Corporate	has the meaning given to that term in section 50 of the Corporations Act.
Representative	means in relation to a party or entity: <ol style="list-style-type: none"> a Related Body Corporate; a director, officer or employee of the party or any of the party's Related Bodies Corporate; or an adviser to the party or any of the party's Related Bodies Corporate, where an 'adviser' means, in relation to an entity, a financier, financial adviser, corporate adviser, legal adviser, or technical or other expert adviser or consultant who provides advisory services in a professional capacity and who has been engaged by that entity.
Requisite Majority	means in relation to the Scheme Resolution to be put to the Scheme Meeting, the Scheme Resolution being passed by: <ol style="list-style-type: none"> a majority in number (more than 50%) of Calliden Shareholders, who are present and voting (either in person or by proxy); and at least 75% of the votes cast on the Scheme Resolution.
Retention Rights	means the retention rights granted to eligible Calliden employees pursuant to the LTI Plan.
RG 60	means Regulatory Guide 60 issued by ASIC on 22 September 2011 as updated from time to time.
Scheme	means a members' scheme of arrangement under Part 5.1 of the Corporations Act between Calliden and the Scheme Shareholders under which Calliden Shares will be transferred to Steadfast substantially in the form of Annexure C, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act.
Scheme Booklet	means this booklet.
Scheme Consideration	means the \$0.415 cash payment to be made to each Scheme Shareholder for the transfer to Steadfast of each Scheme Share, to be paid by Steadfast in accordance with clause 4.3 of the Scheme Implementation Deed and paid to Scheme Shareholders in accordance with the Scheme.
Scheme Implementation Deed	means the Scheme Implementation Deed dated 27 August 2014 between Calliden and Steadfast relating to the implementation of the Scheme, as set out in Annexure B to this Scheme Booklet.
Scheme Meeting	means the meeting of Calliden Shareholders at which the Scheme will be voted on, to be convened by the Court at the First Court Hearing.

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Term	Definition
Scheme Record Date	means 7.00pm on the fifth business day after the Effective Date of the Scheme, which is currently expected to be 19 December 2014.
Scheme Resolution	means the resolution set out in the Notice of Scheme Meeting to approve the Scheme.
Scheme Share	means a Share held by a Scheme Shareholder as at the Scheme Record Date.
Scheme Shareholder	means each person who is registered in the Register as the holder of a Calliden Share as at the Scheme Record Date.
Second Court Date	means the first day of hearing of an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.
Second Court Hearing	means the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.
Share and Business Acquisition Agreement	means an agreement of that name dated 27 August 2014 between Steadfast and MHA under which Steadfast agrees to procure the sale and transfer of the On-Sale Business (on the Implementation Date immediately after completion of the purchase of the Calliden Shares under the Scheme) to an entity or entities nominated by MHA and includes any related agreements.
Special Dividend	means a dividend of \$0.05, which is currently expected to be fully franked for each Calliden Share paid by Calliden prior to the implementation of the Scheme.
Special Dividend Record Date	means 17 December 2014.
Specified Event	means an event, occurrence or matter that: <ul style="list-style-type: none"> a. occurs or fails to occur on or after the date of the Scheme Implementation Deed; b. occurs or fails to occur before the date of the Scheme Implementation Deed but is disclosed to Steadfast or only announced or publicly disclosed after the date of the Scheme Implementation Deed; or c. will or is highly likely to occur or fail to occur on or after the date of the Scheme Implementation Deed and which has not either been fairly disclosed to Steadfast during due diligence or publicly disclosed to the ASX prior to the date of the Scheme Implementation Deed, and includes a change in law, regulation or regulatory policy by any government, government agency or Regulatory Authority (at state, territory or Commonwealth level).
Steadfast	means Steadfast Group Ltd ACN 073 659 677.
Steadfast Board	means the board of directors of Steadfast.
Steadfast Group	means Steadfast and its Subsidiaries, including, without limitation, Steadfast Underwriting Agencies Pty Ltd ACN 162 390 169.

10. GLOSSARY

(continued)

Term	Definition
Steadfast Information	means the information regarding the Steadfast Group which is required under the Corporations Act, the Corporations Regulations or under RG 60 to enable this Scheme Booklet to be prepared and completed, being as set out in: <ol style="list-style-type: none"> the answer to the question 'What is the On-Sale Business and how does it relate to the Scheme?' in the Frequently Asked Questions section; the answer to the question 'Who is Steadfast?' in the Frequently Asked Questions section; the answer to the question 'How will the Scheme Consideration be funded?' in the Frequently Asked Questions section; the answer to the question 'Have all regulatory approvals been obtained?' (to the extent that the answer relates to Steadfast) in the Frequently Asked Questions section; section 2.8(b); section 2.8(c); section 2.8(j) (to the extent the section refers to the deposit of the aggregate amount of the Scheme Consideration in a trust account operated by Calliden to be held on trust for the purpose of paying the Scheme Consideration to the Scheme Shareholders); section 2.9; and section 5.
Steadfast Network	means the collective reference to the distribution network that is comprised of all Network Brokers.
Strategic Partner	means preferred product partners underwriting or arranging the general insurance policies and premium funding products which are placed by Steadfast Network Brokers.
Subsidiaries	has the meaning given to that term in section 46 of the Corporations Act.
Superior Proposal	means a bona fide Competing Transaction which the Calliden Board, acting reasonably and in good faith, and after receiving written advice from its legal and financial advisers, determines: <ol style="list-style-type: none"> is reasonably capable of being completed in a timely basis taking into account all aspects of the Competing Transaction; and is more favourable to the Calliden Shareholders than the Scheme, taking into account all terms and conditions of the Competing Transaction and the identity of the other parties to the Competing Transaction.
Total Entitlements	means the Scheme Consideration, taken together with the Special Dividend (ignoring the value of any franking credits associated with the Special Dividend).
Transaction	means the acquisition of the Calliden Shares by Steadfast through the implementation of the Scheme.
Transitional Services Agreement	means the transitional services agreement to be agreed between MHA and Steadfast (as contemplated by the Share and Business Acquisition Agreement).
Unvested Incentive Rights	means Performance Rights and Retention Rights that are yet to vest under the terms of the LTI Plan (as applicable).
Voting Entitlement Time	means the time for determining eligibility of Calliden Shareholders to vote on the Scheme at the Scheme Meeting, expected to be 7.00pm on 6 December 2014.

10.2

Interpretation

In this Scheme Booklet, unless the context otherwise requires:

- headings used in this Scheme Booklet are inserted for convenience and do not affect the interpretation of this Scheme Booklet;
- words or phrases defined in the Corporations Act have the same meaning in this Scheme Booklet;
- a reference to a section or an annexure is a reference to a section of or annexure to this Scheme Booklet;
- a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- the singular includes the plural and vice versa;
- the word “person” includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- a reference to a time is a reference to Sydney time; and
- Australian dollars, dollars, \$, A\$, AUD or cents is a reference to the lawful currency of Australia.

ANNEXURES

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ANNEXURE A INDEPENDENT EXPERT'S REPORT

LONERGAN EDWARDS & ASSOCIATES LIMITED

The Directors
Calliden Group Limited
Level 7, 100 Arthur Street
North Sydney NSW 2060

1 October 2014

Subject: Proposed acquisition by way of Scheme

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Dear Directors

Introduction

- 1 On 27 August 2014, Calliden Group Limited (Calliden or the Company) announced that it and Steadfast Group Limited (Steadfast) had entered into a Scheme Implementation Deed (the Agreement) under which Steadfast would acquire 100% of the issued shares in Calliden by way of a scheme of arrangement (the Scheme).
- 2 If the Scheme, which is subject to a number of conditions precedent (as summarised in Section I of our report), is approved and implemented, Calliden shareholders will receive a total of 46.5 cents per share held on the applicable record date (the Total Entitlements), consisting of cash consideration from Steadfast of 41.5 cents per share (the Scheme Consideration) and a fully franked special dividend from the Company of 5.0 cents per share (the Special Dividend)¹. Based upon 226.7 million issued shares, the Total Entitlements value the total equity in Calliden at approximately \$105.4 million.
- 3 Separately on 27 August 2014, Steadfast also entered into an on-sale agreement with Munich Holdings of Australasia Pty Limited (MHA)², to on-sell Calliden's general insurance and Business Package and Commercial agency operations immediately following implementation of the Scheme (On-Sale Agreement)³. Accordingly, although Steadfast will acquire 100% of the shares in Calliden, Calliden will (post implementation of the Scheme) ultimately only comprise eight agency businesses, being Calliden Home, Calliden Warranty, Dawes Special Motor, IUA business interruption, Calliden Accident & Health, Mansions of Australia, ARGIS Insurance and the joint venture interests in QUS Pty Ltd (QUS) and Famous Insurance Agency Pty Ltd (Famous).

Calliden

- 4 Calliden is a general insurance company that provides and/or markets personal and commercial lines of insurance primarily to small business and individuals in Australia. The Company has two distinct business divisions, Calliden Insurance which underwrites insurance

¹ We have been advised that, as at the date of this report, it is the Directors' expectation that the Special Dividend will be fully franked.

² A subsidiary of Munich Re, one of the world's leading insurance and reinsurance companies.

³ For the avoidance of doubt, this is a separate agreement between Steadfast and MHA and has no impact upon the consideration to be received by Calliden shareholders pursuant to the Scheme.

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& ASSOCIATES LIMITED

policies in return for premiums (Insurance Division) and Calliden Agency Services which markets and distributes a range of insurance products for both the Insurance Division and third party underwriters for which it receives commission income (Agency Division). Calliden also holds an interest in two joint ventures which provide insurance agency services.

Steadfast

- 5 Steadfast, established in 1996, is a broker network and provider of services to 306 insurance broker businesses across Australia, New Zealand and Singapore. Steadfast's network of brokers and underwriting agencies generate annual billings of over \$5 billion in 2014. Steadfast also operates as a consolidator through its equity interests in a number of insurance broker businesses, a reinsurance broker, underwriting agencies, other complementary businesses and a joint venture in Macquarie Pacific Funding. Steadfast listed on the Australian Securities Exchange (ASX) in August 2013 and has a market capitalisation of \$752 million⁴. Steadfast is a key business partner for Calliden in both the Insurance and Agency divisions.

Munich Re

- 6 Munich Re is one of the world's leading insurance and reinsurance companies. It is based in Munich, Germany and its shares are listed on the Frankfurt Stock Exchange and traded on all other German stock exchanges. Munich Re is authorised by the Australian Prudential Regulation Authority (APRA) to conduct general reinsurance business through a branch in Australia. Other subsidiaries of Munich Re are also authorised by APRA to conduct insurance business in Australia, including MHA and Great Lakes Reinsurance (UK) Plc (trading as Great Lakes Australia). Munich Re (directly and through its subsidiaries) is a key business partner for Calliden in both the Insurance and Agency divisions.

Purpose of report

- 7 Whilst there is no statutory or ASX Listing Rule requirement for Calliden to obtain an independent expert's report (IER), the Scheme is nonetheless subject to a number of conditions precedent, including an independent expert concluding that the Scheme is in the best interests of Calliden shareholders. In addition, the Directors' recommendation of the Scheme is subject to the same.
- 8 Accordingly, the Directors of Calliden have requested Lonergan Edwards & Associates Limited (LEA) to prepare an IER stating whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Calliden shareholders and the reasons for that opinion.
- 9 LEA is independent of Calliden and Steadfast and has no other involvement or interest in the proposed Scheme.

Summary of opinion

- 10 In our opinion, the Scheme is fair and reasonable and in the best interests of Calliden shareholders in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

⁴ Based upon the closing price on 30 September 2014 of \$1.50 and 501.6 million shares on issue (excluding treasury shares).



Value of Calliden

- 11 We have assessed the value of Calliden shares on a 100% controlling interest basis at 45.7 cents to 51.1 cents per share, as shown below:

Calliden – valuation summary			
	Paragraph	Low \$m	High \$m
Insurance Division	165	53.3	56.0
Agency Division	191	54.0	63.0
Corporate	199	(9.8)	(11.3)
Enterprise value		97.5	107.7
Other assets / (liabilities)	218	6.1	8.1
Net cash / (debt)	219	-	-
Equity value – controlling interest basis		103.6	115.8
Number of shares on issue (million)	220	226.7	226.7
Calliden value per share – controlling interest basis (cents)		45.7	51.1

Value of Total Entitlements

- 12 If the Scheme is approved and implemented, Calliden shareholders will receive a total 46.5 cents per share held on the applicable record date, consisting of cash consideration from Steadfast of 41.5 cents per share and a fully franked special dividend from the Company of 5.0 cents per share⁵.
- 13 Whilst we have assessed the Total Entitlements at 46.5 cents per share, we note that due to the benefit of franking credits (of 2.1 cents per share) attached to the Special Dividend, the value of the Total Entitlements to some Australian resident shareholders may be greater than 46.5 cents per share.

Fair and reasonable opinion

- 14 Pursuant to the Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111), a scheme is “fair” if the value of the Total Entitlements is equal to or greater than the value of the securities the subject of the Scheme. This comparison for Calliden shares is shown below:

Comparison of Total Entitlements to value of Calliden			
	Low cents per share	High cents per share	Mid-point cents per share
Value of Total Entitlements	46.5	46.5	46.5
Value of 100% of Calliden	45.7	51.1	48.4
Extent to which the Total Entitlements exceed (or are less than) the value of Calliden	0.8	(4.6)	(1.9)

- 15 As the value of the Total Entitlements lies within our assessed valuation range for Calliden shares on a 100% controlling interest basis, in our opinion, the Scheme is fair to Calliden shareholders when assessed based on the Guidelines set out in RG 111.

⁵ We have been advised that, as at the date of this report, it is the Directors' expectation that the Special Dividend will be fully franked.

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- 16 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and reasonable” it must also be “in the best interests” of shareholders.
- 17 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of Calliden shareholders in the absence of a superior proposal.

Assessment of the Scheme

- 18 We summarise below the likely advantages and disadvantages of the Scheme for Calliden shareholders.

Advantages

- 19 In our opinion, the Scheme has the following benefits for Calliden shareholders:
- (a) the value of the Total Entitlements of 46.5 cents per share is above the low end of our assessed value range for Calliden shares on a 100% controlling interest basis
 - (b) the Total Entitlements represents a significant premium to the recent market prices of Calliden shares prior to the announcement of the Scheme on 27 August 2014
 - (c) furthermore, the premium is consistent with observed premiums generally paid to target company shareholders in comparable circumstances
 - (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, Calliden shares are likely to trade at a significant discount to our valuation and the Total Entitlements due to the portfolio nature of individual shareholdings.

Disadvantages

- 20 Calliden shareholders should note that if the Scheme is implemented they will no longer hold an interest in Calliden. Calliden shareholders will therefore not participate in any future value created by the Company over and above that reflected in the Total Entitlements.
- 21 However, as our assessed value of Calliden shares is consistent with the Total Entitlements, in our opinion, the present value of Calliden’s future potential is reflected in the Total Entitlements.

Conclusion

- 22 Given the above analysis, we consider the acquisition of Calliden shares under the Scheme to be fair and reasonable and in the best interests of Calliden shareholders in the absence of a superior proposal.

General

- 23 In preparing this report, we have considered the interests of Calliden shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 24 The impact of approving the Scheme on the tax position of Calliden shareholders depends on the individual circumstances of each investor. Calliden shareholders should read Section 7 of the Scheme Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.



- 25 The ultimate decision whether to approve the Scheme should be based on each Calliden shareholder's assessment of their own circumstances. If Calliden shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.
- 26 For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that Calliden shareholders read the remainder of our report.

Yours faithfully

Martin Hall
Authorised Representative

Nathan Toscan
Authorised Representative

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I Key terms of the Scheme

Terms

- 27 On 27 August 2014, Calliden Group Limited (Calliden) announced that it and Steadfast Group Limited (Steadfast) had entered into a Scheme Implementation Deed (the Agreement) under which Steadfast would acquire 100% of the issued shares in Calliden by way of a scheme of arrangement (the Scheme).
- 28 If the Scheme, which is subject to a number of conditions precedent, is approved and implemented, Calliden shareholders will receive a total of 46.5 cents per share held on the applicable record date (the Total Entitlements), consisting of cash consideration from Steadfast of 41.5 cents per share (the Scheme Consideration) and a fully franked special dividend from the Company of 5.0 cents per share (the Special Dividend). Based upon 226.7 million issued shares, the Total Entitlements value the total equity in Calliden at approximately \$105.4 million.
- 29 Separately on 27 August 2014, Steadfast also entered into an on-sale agreement with Munich Holdings of Australasia Pty Limited (MHA)⁶, to on-sell Calliden's general insurance and Business Package and Commercial agency operations immediately following implementation of the Scheme (On-Sale Agreement)⁷. Accordingly, although Steadfast will acquire 100% of the shares in Calliden, Calliden will (post implementation of the Scheme) ultimately only comprise eight agency businesses, being Calliden Home, Calliden Warranty, Dawes Special Motor, IUA business interruption, Calliden Accident & Health, Mansions of Australia, ARGIS Insurance and the joint venture interests in QUS and Famous.

Conditions

- 30 The Scheme is subject to the satisfaction of a number of conditions precedent, including the following which are outlined in the Agreement between Calliden and Steadfast dated 27 August 2014:
 - (a) receipt of all required regulatory approvals, including from ASIC, the ASX, the Federal Treasurer under the *Financial Sector (Shareholdings) Act 1998* (Cth), the Foreign Investment Review Board and by APRA
 - (b) approval of the Scheme by the Court in accordance with s411(4)(b) of the *Corporations Act 2001* (Cth) (Corporations Act)
 - (c) Calliden shareholder approval by the requisite majorities at the Scheme meetings under the Corporations Act
 - (d) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the transaction is in effect at 8.00am on the Second Court Date
 - (e) relevant consents being obtained from certain counterparties to material contracts entered into with Calliden

⁶ A subsidiary of Munich Re, one of the world's leading insurance and reinsurance companies.

⁷ For the avoidance of doubt, this is a separate agreement between Steadfast and MHA and has no impact upon the consideration to be received by Calliden shareholders pursuant to the Scheme.



- (f) no “Target Prescribed Event” (as defined in clause 1.1 of the Agreement) occurs in respect of Calliden on or before 8.00am on the Second Court Date
 - (g) no “Target Material Adverse Change” (as defined in clause 1.1 of the Agreement) occurs in respect of Calliden
 - (h) an independent expert issues a report which concludes that the Scheme is in the best interests of Calliden shareholders
 - (i) the On-Sale Agreement not being terminated.
- 31 In addition, Calliden has agreed that it will not, for a period of six months from the date of the Agreement:
- (a) solicit, invite, encourage or initiate any competing transaction
 - (b) participate in any discussions or negotiations which may reasonably be expected to lead to a competing transaction
 - (c) enter into any agreement, arrangement or understanding in relation to a competing transaction or any agreement, arrangement or understanding which may reasonably be expected to lead to the completion of a competing transaction
 - (d) provide any information to a third party for the purposes of enabling that party to table a competing transaction.
- 32 The exclusivity obligations do not apply if Calliden has complied with the various obligations set out in the Agreement and the Calliden Board determines:
- (a) the proposed competing transaction is a superior proposal or the steps which the Calliden Board proposes to take may reasonably be expected to lead to a competing transaction which is a superior proposal⁸; and
 - (b) based on written advice from its legal advisers, that compliance with exclusivity obligations would involve a breach of fiduciary duties or would otherwise be unlawful.
- 33 A reimbursement fee of \$900,000 is payable by Calliden to Steadfast in certain circumstances as specified in the Agreement.

⁸ Subject to any potential breach of fiduciary duties, Calliden must notify Steadfast if it receives a superior competing proposal and give Steadfast five business days to match that competing proposal.

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Resolution

- 34 Calliden shareholders will be asked to vote on the Scheme in accordance with the resolution contained in the notice of meeting accompanying the Scheme Booklet.
- 35 If the resolution is passed by the requisite majorities, Calliden must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with ASIC and do all things necessary to give effect to the Scheme. Once the Court approves the Scheme, it will become binding on all Calliden shareholders who hold Calliden shares as at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).



II Scope of our report

Purpose

- 36 The Scheme is to be effected pursuant to Part 5.1 of the Corporations Act, which governs schemes of arrangement. Part 3 of Schedule 8 of the Corporations Regulations prescribes information to be sent to shareholders in relation to a member's scheme of arrangement pursuant to s411 of the Corporations Act.
- 37 Paragraph 8303 of Schedule 8 of the Corporations Regulations provides that, where the other party to the transaction holds not less than 30% of the voting shares in the company the subject of the scheme, or where a director of the other party to the transaction is also a director of the company the subject of the scheme, the explanatory statement must be accompanied by an IER assessing whether the proposed scheme is in the best interests of shareholders and state reasons for that opinion.
- 38 Steadfast has no current shareholding in Calliden and has no representation on the Calliden Board. However, both a condition precedent to the Scheme and the Calliden Directors' recommendation of the Scheme are subject to an independent expert concluding that the Scheme is in the best interests of Calliden shareholders. In addition, as the Scheme (if approved and implemented) will result in 100% of the securities in Calliden being held by Steadfast, RG 111 requires that we provide an opinion on whether the consideration payable under the Scheme is "fair" and "reasonable" to the shareholders of Calliden.
- 39 The Directors of Calliden have therefore requested LEA prepare an IER stating whether the proposed acquisition of the shares in Calliden by Steadfast under the Scheme is fair and reasonable and in the best interests of Calliden shareholders and the reasons for that opinion.
- 40 This report has been prepared by LEA for the benefit of Calliden shareholders to assist them in considering the resolution to approve the Scheme. Our report will accompany the Notice of Meeting and Scheme Booklet to be sent to Calliden shareholders. The sole purpose of our report is to determine whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Calliden shareholders.
- 41 The ultimate decision whether to approve the Scheme should be based on each Calliden shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 42 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111.
- 43 RG 111 distinguishes "fair" from "reasonable" and considers:
 - (a) the Scheme to be "fair" if the value of the consideration is equal to or greater than the value of the securities that are the subject of the Scheme. A comparison must be made assuming 100% ownership of the target company

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- (b) the Scheme to be “reasonable” if it is fair. The Scheme may also be “reasonable” if, despite not being “fair” but after considering other significant factors, there are sufficient reasons for shareholders to approve the Scheme in the absence of a superior proposal.
- 44 There is no legal definition of the expression “in the best interests”. However, RG 111 states that a Scheme may be “*in the best interests of the members of the company*” if there are sufficient reasons for securityholders to vote in favour of the Scheme in the absence of a higher offer.
- 45 In our opinion, if the Scheme is “fair” and “reasonable” under RG 111, it must also be “in the best interests” of Calliden shareholders.
- 46 Our report has therefore considered:
 - (a) the market value of 100% of the shares in Calliden
 - (b) the value of the Total Entitlements
 - (c) the extent to which (a) and (b) differ (in order to assess whether the Scheme is fair under RG 111)
 - (d) the extent to which a control premium is being paid to Calliden shareholders
 - (e) the extent to which Calliden shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
 - (f) the listed market price of Calliden shares, both prior to and subsequent to the announcement of the proposed Scheme
 - (g) the likely market price of Calliden securities if the proposed Scheme is not approved
 - (h) the value of Calliden to an alternative offeror and the likelihood of a higher alternative offer being made for Calliden prior to the date of the Scheme meeting
 - (i) the advantages and disadvantages of the Scheme from the perspective of Calliden shareholders
 - (j) other qualitative and strategic issues associated with the Scheme.

Limitations and reliance on information

- 47 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.



- 48 Our report is also based upon financial and other information provided by Calliden and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 49 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Scheme from the perspective of Calliden shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 50 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.
- 51 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 52 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 53 In forming our opinion, we have also assumed that:
- (a) the information set out in the Scheme Booklet is complete, accurate and fairly presented in all material respects
 - (b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the Agreement and the terms of the Scheme itself.

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III Profile of Calliden

Overview

- 54 Calliden is a general insurance company that provides and/or markets personal and commercial lines of insurance primarily to small business and individuals in Australia. The Company has two distinct business divisions, Calliden Insurance which underwrites insurance policies in return for premiums (Insurance Division) and Calliden Agency Services which markets and distributes a range of insurance products for both the Insurance Division and third party underwriters for which it receives commission income (Agency Division). Calliden also holds an interest in two joint ventures which provide insurance agency services.

History

- 55 Calliden commenced operations as a general insurer in 2005. The following table summarises the key developments in the Company's history:

Calliden – history	
Year	Key development
2005	<ul style="list-style-type: none"> • APRA general insurance licence approved • ASIC approves Australian Financial Services (AFS) licence • Commenced operations • Joins Insurance Council of Australia
2006	<ul style="list-style-type: none"> • Acquires Dawes Underwriting group • Purchases 50% shareholding in Sports Underwriting Australia Pty Ltd • Acquires the Famous Classic Car Insurance portfolio • Purchases 50% shareholding in Claims Services Australia Pty Ltd (CSA)
2007	<ul style="list-style-type: none"> • Club Insure Underwriting Australia Limited and Blue Dog Insurance Pty Ltd launched • CSA acquires Insurance Claims Solutions Pty Ltd's business • Dawes Underwriting Australia Pty Ltd (Dawes) acquires Young & Cool Portfolio • Completes purchase of Australian Unity's general insurance business • Acquires 50% stake in IUA Pty Ltd (IUA) • Obtains APRA approval to be a non-operating holding company
2008	<ul style="list-style-type: none"> • Arena Underwriting Pty Ltd (Arena Underwriting) and QUS launched • Exercises call option to purchase additional 50% shareholding in ARGIS Ltd (ARGIS)
2009	<ul style="list-style-type: none"> • Acquires remaining 50% of IUA
2010	<ul style="list-style-type: none"> • Enters into an agreement to sell its 50% shareholding in Sports Underwriting Australia Pty Ltd
2011	<ul style="list-style-type: none"> • Undertakes strategic review and decides to change business focus to agency model • Sells 50% share in CSA • Enters into a three year strategic alliance with Great Lakes Australia
2012	<ul style="list-style-type: none"> • Becomes an agent for Great Lakes Australia for its commercial package business
2013	<ul style="list-style-type: none"> • Extends its product range with Commercial, Industrial Special Risks Property and General Liability Insurance underwritten by Great Lakes Australia • Becomes an agent for Great Lakes Australia for its ARGIS Farm Insurance • Becomes an agent for ACE Insurance Ltd (ACE Insurance) for Accident and Health products
2014	<ul style="list-style-type: none"> • Becomes an agent for ACE Insurance for its Mansions of Australia Prestige Home Insurance • Sale of Arena Underwriting Pty Ltd to Action Entertainment Insurance Pty Ltd • Launches Famous as a joint venture focussed on motor cycle insurance • QUS changes insurer from W.R. Berkley Insurance (Europe) Ltd (WR Berkley) to American International Group Inc (AIG) (1 December 2014)

Source: Calliden.

Current operations

- 56 Pursuant to a strategic review undertaken in June 2011, Calliden has been transitioning to a platform that focuses upon its agency operations, which are less capital intensive and exhibit lower profit volatility than general insurance / underwriting. The following diagram depicts Calliden's current operations (and business relationships):

Calliden – current operations



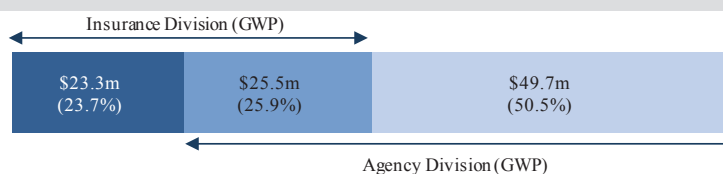
Note:

- 1 This operates under the subsidiary Calliden Insurance Limited (CIL).
- 2 This division largely operates through the subsidiary Calliden Agency Services Limited (CAS). Other Agency Division entities include Dawes Underwriting Australia Pty Ltd and IUA Pty Ltd.
- 3 Current third party insurers include ACE Insurance, Great Lakes Australia and NSW Self Insurance Corporation (SiCorp).
- 4 Calliden's Insurance Division acts as the insurer / underwriter for Famous.

Source: Calliden.

- 57 Calliden's operations (excluding its interests in joint ventures) generated total gross written premium (GWP) of \$98.5 million in 1H14⁹, split as follows:

Calliden – GWP in 1H14 (millions)⁽¹⁾



Note:

- 1 Excludes fire services levy.

Source: Calliden.

⁹ Excludes fire services levy.

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Insurance Division

- 58 Since 2011, Calliden has continued to reposition the Insurance Division to focus upon personal and niche commercial lines (as opposed to all general, commodity and niche). As part of the restructuring, various insurance products formerly underwritten by Calliden have now been transferred to third party insurers, for example, Great Lakes Australia has underwritten the business package product line from the middle of 2012¹⁰, QUS strata insurance has been underwritten by WR Berkley¹¹ from January 2013 and Mansions (prestige) home insurance has been underwritten by ACE Insurance from January 2014¹².
- 59 As a consequence of the repositioning, the Insurance Division is now a much smaller insurer with fewer components and lower GWP, which has decreased from \$157 million in FY12 to \$94 million in FY13 and to \$49 million in 1H14¹³. The Agency Division generated some 52% of the GWP underwritten by the Insurance Division in 1H14.
- 60 The insurance products for which the Insurance Division continues to act as underwriter (together with the agencies that market those products) are set out in the following table:

Insurance Division – overview of products (by agent) ⁽¹⁾		
Product	GWP ⁽²⁾	Product description
Agency Division		
Calliden Home	16.8	• Refer to Agency Division below
Calliden Warranty (SA & WA) ⁽³⁾	0.4	• Refer to Agency Division below
Dawes Special Motor	6.7	• Refer to Agency Division below
IUA business interruption	1.5	• Refer to Agency Division below
Third party agents		
Aobis (SA & WA)	0.6	• Owner builder construction and warranty insurance solutions for mums and dads building or renovating homes
Arena Underwriting	1.6	• Liability cover for entertainment, events and security industry (e.g. general liability, cancellation of events, prize indemnity)
Community Underwriting	2.4	• Insurance for Not for Profit and Community groups (e.g. general liability, building and contents, commercial motor vehicle)
nlc	7.0	• Comprehensive motor vehicle insurance for novated lease customers
Sports Underwriting Australia	8.4	• Insurance packages for sporting clubs, groups and associations, sport and leisure related businesses and licensed clubs
Solution Underwriting	2.3	• Professional indemnity and public liability insurance for a large range of occupations
OAMPS	0.8	• Liability and personal accident insurance for amateur sports and tourism operators and related activities
Run-off	0.2	• Various insurance portfolios where Calliden ceased writing new business in 2013 but with mid-term policy amendments giving rise to written premium in 2014

¹⁰ Great Lakes Australia also commenced underwriting farm insurance from January 2013.

¹¹ Trading as W.R. Berkley Insurance Australia.

¹² Previously underwritten by Lloyd's of London until 31 December 2013.

¹³ Excludes fire services levy.

Note:

- 1 Rounding differences may exist.
- 2 GWP in 1H14 in \$millions excluding fire services levy (and totals \$48.8 million).
- 3 Warranty insurance is also sold in NSW by Calliden (by its Agency Division) on behalf of SiCorp. In SA and WA, Warranty insurance is 100% reinsured by the SA and WA governments, respectively, effectively making the Insurance Division an agent.

Source: Calliden.

- 61 In addition to the business currently being written, the Insurance Division also has obligations to pay claims relating to prior periods of cover. For some classes of business (such as liability claims including Builders' Warranty), claims may take a considerable time to emerge¹⁴.
- 62 The outstanding claims provision therefore includes liabilities in respect of businesses no longer written such as NSW Builders' Warranty (written up to June 2010) and Inwards Reinsurance (written up to 2000¹⁵).

Agency Division

- 63 Calliden's Agency Division engages in marketing and issuing of policies, relationship management and claims handling on behalf of insurers, including its own licensed insurer. The development of the Agency Division has (since the end of 2011) become Calliden's primary focus.
- 64 As a result, the GWP of the Agency Division has grown significantly (from \$52 million in FY12 to \$151 million in FY13 and \$75 million in 1H14)¹⁶. It has also significantly broadened its product range and has a more diverse group of insurers (i.e. underwriters) it represents. In 1H14, 34% of GWP was underwritten by the Insurance Division, 7% by ACE Insurance, 47% by Great Lakes Australia¹⁷ and 12% by SiCorp.
- 65 The range of insurance products currently marketed by Calliden's Agency Division on behalf of its own insurer as well as third party insurers are set out in the following table:

Agency Division – overview of products (by underwriter / insurer) ⁽¹⁾		
Product	GWP ⁽²⁾	Product description
Insurance Division		
Calliden Home	16.8	• Home and contents insurance (combined risks which sum to over \$1.5 million are arranged by Mansions of Australia)
Calliden Warranty (SA & WA) ⁽³⁾	0.4	• Licensed builder warranty for both large and small builders
Dawes Special Motor	6.7	• Special motorcar and motorcycle insurance for prestige cars, exotic cars, special vehicles and high end motorcycles
IUA business interruption ⁽⁴⁾	1.5	• Standalone business interruption (i.e. cash flow) insurance
ACE Insurance		
Calliden Accident & Health	0.0	• Accident and health cover for corporate clients (e.g. business travel insurance, personal accident and sickness)
Mansions of Australia ⁽⁵⁾	5.4	• Home and contents insurance for high value homes (greater than \$1 million) and contents (greater than \$150,000)

¹⁴ These classes are sometimes referred to as long-tail classes.

¹⁵ At that time, Calliden was named Reinsurance Australia Corporation Ltd.

¹⁶ Excludes fire services levy.

¹⁷ A wholly owned subsidiary of Munich Re.

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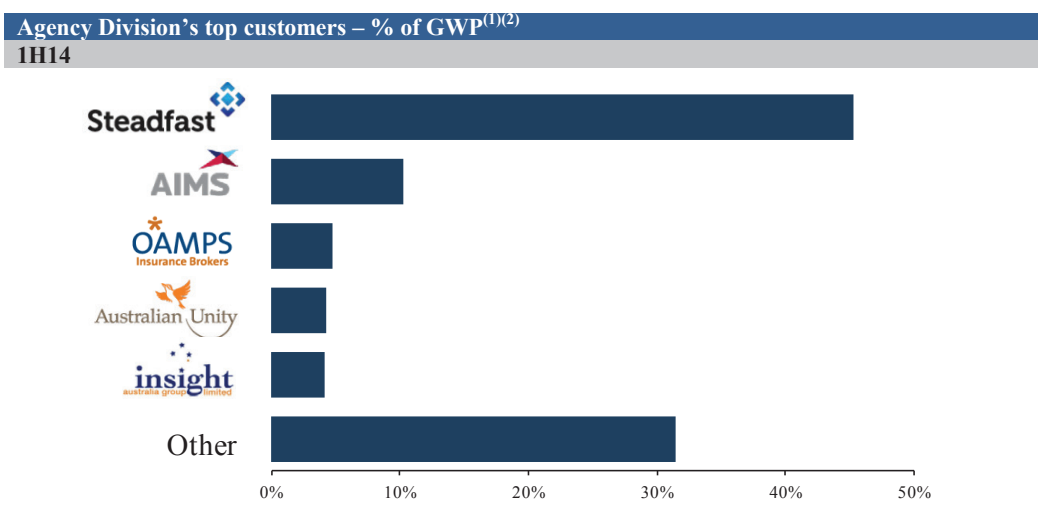
Agency Division – overview of products (by underwriter / insurer) ⁽¹⁾		
Product	GWP ⁽²⁾	Product description
Great Lakes Australia		
ARGIS Insurance	11.4	<ul style="list-style-type: none"> Specialist insurance for primary producers in Australia (e.g. farm buildings, farm contents, machinery breakdown, livestock)
Calliden Business Package	22.4	<ul style="list-style-type: none"> Business insurance. Designed for SME risks with a combined Fire and Business Interruption up to \$20 million and for Liability cover, risks with a turnover of up to \$20 million
Calliden Commercial	1.3	<ul style="list-style-type: none"> Property insurance and general liability insurance Focus on Property Owners, Warehousing / Wholesaling, Retail and Professional Office segments
SiCorp		
Calliden Warranty (NSW) ⁽³⁾	9.1	<ul style="list-style-type: none"> Licensed builder warranty for both large and small builders

Note:

- 1 Rounding differences may exist.
- 2 GWP in 1H14 in \$millions excluding fire services levy (and totals \$75.2 million).
- 3 Warranty insurance is also sold in NSW by Calliden on behalf of SiCorp and is not underwritten by the Insurance Division.
- 4 To be underwritten by Lloyd's of London as of November 2014.
- 5 Previously underwritten by Lloyd's of London until 31 December 2013.

Source: Calliden.

- 66 The Agency Division predominantly sells its products through insurance brokers and other professional intermediaries. The top five intermediary groups represented some 68.5% of GWP written in 1H14¹⁸ with Steadfast being the largest:



¹⁸ Excludes fire services levy.

**Note:**

- 1 Based upon 1H14 and excludes fire services levy.
 2 OAMPS Insurance Brokers Limited's (OAMPS) share of the Agency Division's GWP was slightly higher than usual for the six months to 30 June 2014. Typically Australian Unity and Insight would contribute a higher percentage of GWP than OAMPS.

Source: Calliden.

Joint Ventures

- 67 In addition to engaging in its own (100% owned) agency operations, Calliden has historically also held interests in a number of joint venture insurance agency businesses. However, over time, the majority of these interests have been sold, the most recent being Arena Underwriting in March 2014.
- 68 Today, Calliden holds only a 46.5%¹⁹ interest in QUS (which commenced operations in 2008) and a 50% interest in Famous (which is a start-up business that commenced operations in July 2014).

Joint Ventures – overview of products

Product	Underwriter	Product description
QUS	WR Berkley ⁽¹⁾	• Focuses on residential and commercial strata
Famous	Calliden Insurance Ltd	• Direct to consumer vehicle insurance, specialising in motorcycles, dirt bike, scooters and cars

Note:

- 1 Changed from Calliden's Insurance Division to WR Berkley on 1 January 2013 and is to be underwritten by AIG from 1 December 2014.

Source: Calliden.

Financial performance

- 69 The financial performance of Calliden for the four years ended 31 December 2013 and the six months to 30 June 2014 is set out below:

Calliden – financial performance ⁽¹⁾⁽²⁾					
Year ending 31 December	FY10 Audited \$000	FY11 Audited \$000	FY12 Audited \$000	FY13 Audited \$000	1H14 Reviewed \$000
Insurance Division					
Gross written premiums ⁽³⁾	194,474	224,652	156,504	93,570	48,769
Net premium revenue ⁽³⁾	96,973	106,350	60,387	57,730	30,117
Net claims expense	(58,387)	(85,731)	(39,961)	(39,323)	(20,889)
Net acquisition costs	(23,796)	(30,344)	(10,550)	(17,487)	(6,444)
Underwriting expenses ⁽³⁾	(6,428)	(12,051)	(9,658)	(2,343)	(4,202)
Underwriting profit / (loss)	8,362	(21,776)	218	(1,423)	(1,418)
Income on asset backing insurance liabilities	4,998	6,278	5,247	4,004	1,909
Insurance profit / (loss)	13,360	(15,498)	5,465	2,581	491

¹⁹ Reduced from 47.5%, effective 1 July 2014.

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Calliden – financial performance⁽¹⁾⁽²⁾

Year ending 31 December	FY10 Audited \$000	FY11 Audited \$000	FY12 Audited \$000	FY13 Audited \$000	1H14 Reviewed \$000
Agency Division					
Commission and fee revenue	6,489	8,820	18,708	39,189	23,123
Acquisition costs	(3,193)	(3,990)	(10,881)	(18,163)	(9,614)
Operating expenses	(1,811)	(3,289)	(6,698)	(12,784)	(9,246)
Agency profit / (loss)	1,485	1,541	1,129	8,242	4,263
Joint Ventures and other					
Income on shareholders' funds ⁽⁴⁾	1,905	393	425	485	380
Share of net profit of joint ventures	1,266	1,274	253	603	278
Gains on sale of joint ventures	1,100	8,169	58	-	566
Other (expenses) / revenue	(5,527)	(1,423)	(1,619)	(1,487)	(1,053)
Total Joint Ventures and other	(1,256)	8,413	(83)	(399)	171
EBITDA	13,589	(5,544)	5,711	10,424	4,925
Depreciation	(781)	(407)	(277)	(394)	(218)
EBITA	12,808	(5,951)	5,434	10,030	4,707
Amortisation	(2,955)	(3,955)	(4,345)	(3,876)	(1,792)
EBIT	9,853	(9,906)	1,089	6,154	2,915
Borrowing costs	(1,367)	(343)	-	-	-
Profit / (loss) before income tax	8,486	(10,248)	1,089	6,154	2,915
Income tax benefit / (expense)	1,638	-	-	-	(156)
Net profit / (loss) after income tax	10,124	(10,248)	1,089	6,154	2,759
Insurer ratios⁽⁵⁾					
Gross claims ratio	70%	94%	62%	68%	69%
Net claims ratio	60%	80%	67%	69%	69%
Net expense ratio	31%	40%	33%	34%	35%
Combined operating ratio	91%	120%	100%	102%	105%
Insurance margin	14%	(14%)	9%	4%	2%

Note:

- 1 Rounding differences may exist.
- 2 All administration expenses are initially incurred by the Company and recharged to divisions (except for superannuation expense which are reported under other). Direct administration expenses and a share of corporate overheads are recharged at cost based on estimates of time incurred and an analysis of actual expenditure.
- 3 Excludes fire services levy.
- 4 Predominately income on capital required to be held within the Insurance Division.
- 5 Insurer ratios are presented excluding statutory charges as this is considered a more appropriate reflection of underlying business performance and these ratios are not audited.

Source: Calliden.

- 70 Calliden's results have been volatile and significantly impacted by the exposure of the Insurance Division to catastrophic events. With a view to reducing this volatility, Calliden (as previously mentioned) announced at the end of 2011 that it would adopt a new strategic direction that focuses upon the development of its agency operations. The change in strategy is evidenced in the FY13 results (which reflect the first full year of earnings under the restructured platform). Calliden's results over the past five years have also been significantly impacted by gains realised on the sale of its interests in joint venture entities.



71 Financial highlights on a year by year basis are as follows:

(a) **FY10**

- (i) profit after tax of \$10.1 million represented the largest profit in Calliden's history (and was attributable to the benefits of premium rates increases and underwriting improvements carried out by the Company in the prior 18 months)
- (ii) profit included the benefit of a number of positive non-recurring items including \$2.5 million profit from the settlement of Calliden's dispute with Australian Unity and the \$1.2 million profit on sale of 50% share in Sports Underwriting
- (iii) however, one-off profits were broadly offset by the negative impact of the rise in claims, with weather claims in December alone being more than double the costs of the previous year
- (iv) quota share reinsurance for new business was 40%

(b) **FY11**

- (i) \$10.2 million loss, broadly attributable to the Insurance Division which (together with the rest of the insurance industry) experienced an unprecedented number of weather related catastrophes and an increase in large property losses
- (ii) catastrophic events overseas²⁰ led to reinsurance prices increasing substantially and consequently a Liability Adequacy Test impairment
- (iii) loss in the Insurance Division partly offset by Calliden's share of net profits from joint ventures of \$1.3 million and an \$8.3 million profit on sale from its interest the CSA joint venture²¹
- (iv) Calliden announced new strategic direction in December 2011 (as well as the transfer of the Business Package insurance portfolio to Great Lakes Australia)
- (v) quota share reinsurance for new business was 40%, except for Builders' Warranty (variable from 40% to 85% depending on turnover). In addition, unexpired risk at 31 December 2011 had additional quota share of 25%, up to an aggregate of 65%

(c) **FY12**

- (i) modest profit of \$1.1 million underpinned by an improved underwriting performance and reduced operating expenses. It was also aided by the benign catastrophe experience for the year, in strong contrast to FY11
- (ii) the Insurance Division underwrote GWP of \$156.5 million in FY12, compared with \$224.7 million in FY11²² (being the result of the Business Pack transition in combination with portfolio management actions, which included reducing scope and the exiting of certain segments²³)

²⁰ Including the tsunami in Japan, flooding in Thailand and earthquakes in New Zealand.

²¹ Which was partly offset by a small loss incurred on the sale of its interest in the Property Claims Services Pty Ltd joint venture.

²² Excludes fire services levy.

²³ In the Warranty segment, the Insurance Division reduced the scope to builders under \$3 million turnover, whilst under the Home and Farm segments, the Division exited Landlord and Hobby Farms, respectively.

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- (iii) the Agency Division reported a profit of \$1.1 million in a year of transition (which included a number of one-off costs directly associated with the restructure)
 - (iv) quota share reinsurance for new business was 60%, except for Builders' Warranty (which varied from 40% to 85%, depending upon turnover) and Business Package (which was 100% reinsured)
- (d) **FY13**
- (i) profit after tax of \$6.2 million, significantly up from FY12 (and marked the completion of a two year transition of the business to one that focuses upon the development of the agency operations)
 - (ii) the Insurance Division was impacted by adverse experience in the Registered Builders' Warranty portfolio (more than offsetting strong loss ratio improvements in remaining portfolios²⁴). Otherwise, GWP continued to decline in accordance with the shift in business focus
 - (iii) the Agency Division returned a profit of \$8.2 million in FY13 (although the result was affected by the build-up of a provision for future administration and claims costs). The operations continued to grow through underwriting agency agreements with Great Lakes Australia, ACE Insurance and SiCorp²⁵
 - (iv) quota share reinsurance on new business was 25%, except for Builders' Warranty (which varied from 40% to 81%, depending upon turnover)
- (e) **1H14**
- (i) profit of \$2.8 million up from \$2.0 million in 1H13 (largely attributed to a significant increase in agency profit)
 - (ii) the Insurance Division reported an underwriting loss of \$1.4 million compared with a profit of \$0.5 million in the prior corresponding period. GWP of \$48.8 million was 8% lower than in 1H13²⁶, due primarily to a reduction in the size of the motor portfolio and the transitioning of further business package policies to Great Lakes Australia and an exit from the Construction portfolio
 - (iii) the Agency Division continued to improve (\$4.3 million profit versus \$2.0 million in prior corresponding period) but the result was, as in FY12 and FY13, affected by the build-up of a provision for future administration and claims costs. However, this provision is now largely built and so its effect on future profitability will be significantly reduced
 - (iv) interest in Arena Underwriting joint venture sold for a profit of \$0.6 million
 - (v) quota share reinsurance on new business was 20%.

72 In addition to the above, it should be noted that subsequent to the profit in the half year ended 30 June 2014, Calliden has now used all of its recent tax losses and is in a tax paying position. Calliden's large amount of older tax losses are subject to an available loss fraction of 87%,

²⁴ No new Registered Builders' Warranty risks were added from January 2014.

²⁵ Around half of Calliden's overall GWP is now underwritten by third party insurers.

²⁶ Excludes fire services levy.



meaning that the Company's effective tax payable rate is approximately 4% and is expected to remain at that level for at least another five years.

Financial position

73 The financial position of Calliden as at 31 December 2013 and 30 June 2014 is set out below:

Calliden – financial position		
	31 Dec 13 Audited \$000	30 Jun 14 Reviewed \$000
Cash and cash equivalents	28,589	41,764
Investments	65,592	61,582
Premium receivable	40,141	50,926
Trade and other receivables	22,213	15,017
Reinsurance and other recoveries receivable	54,220	46,899
Prepayments	902	729
Deferred levies and charges	901	597
Deferred reinsurance expense	12,869	15,760
Deferred acquisition costs	13,802	14,433
Deferred tax assets	3,750	3,750
Plant and equipment	1,817	1,599
Investments in joint ventures	855	444
Intangible assets	9,952	8,856
Goodwill	34,371	34,371
Total assets	289,974	296,727
Trade and other payables	27,054	40,767
Employee entitlements	1,375	1,541
Unearned premium liability	45,693	48,597
Unearned reinsurance commission	4,011	3,635
Unearned agency commission	2,172	2,410
Outstanding claims liability	110,701	102,592
Tax liabilities	-	156
Total liabilities	191,006	199,698
Net assets	98,968	97,029

Source: Calliden.

Cash and cash equivalents and investments

- 74 In addition to the cash held for operational purposes, Calliden also holds cash in trust accounts, held on behalf of other insurers and reinsurers. As at 30 June 2014, approximately \$5.9 million was held in trust accounts.
- 75 As at 30 June 2014, investments amounted to \$61.6 million, of which \$60.6 million was in fixed term deposits and the remaining \$1.0 million invested in equity securities.

Deferred acquisition costs

- 76 Costs associated with obtaining and recording general insurance contracts (for new business and renewals) are referred to as acquisition costs (including advertising expenses, commissions or brokerage paid to agents or brokers, premium collection costs, risk

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assessment costs and other administrative costs). Deferred acquisition costs are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contract. As at 30 June 2014, deferred acquisition costs totalled \$14.4 million.

Deferred tax assets

- 77 As at 30 June 2014, Calliden has \$235.7 million²⁷ in carry forward tax losses (equating to a potential tax benefit of \$70.7 million). The deferred tax asset carried on balance sheet represents the proportion of the total deferred tax benefit that the Directors believe is probable of being recovered.

Investments in joint ventures

- 78 As at 30 June 2014, investments in joint ventures consist of QUS and Famous. During the six months to 30 June 2014, the ownership interest in Arena Underwriting reduced from 50% to 0%, following the sale of Calliden's interest therein to its joint venture partner, Action Entertainment Insurance Pty Limited. Details of the investments are set out below:

Calliden – Investments in joint ventures				
	Ownership interest		Carrying amount of investments in JVs	
	31 Dec 13	30 Jun 14	31 Dec 13	30 Jun 14
	%	%	\$000	\$000
Arena Underwriting	50.0	-	187	-
QUS	47.5	47.5 ⁽¹⁾	668	444
Famous	-	50.0	-	-
Investment in joint ventures			855	444

Note:

1 Reduced from 47.5% to 46.5%, effective 1 July 2014.

Source: Calliden.

Intangible assets

- 79 Intangible assets represent systems development and customer relationships expenditure (being \$6.2 million and \$3.8 million respectively as at 31 December 2013 and \$5.6 million and \$3.3 million respectively as at 30 June 2014).
- 80 The following table sets out amortisation costs incurred in respect of the intangibles from FY10 to 1H14:

Amortisation expense					
	FY10	FY11	FY12	FY13	1H14
	\$000	\$000	\$000	\$000	\$000
Corporate / acquisition integration	1,174	1,985	1,837	1,923	866
Software / systems development	189	634	1,042	877	403
Total systems development costs	1,363	2,619	2,879	2,800	1,269
Customer relationships	1,592	1,336	1,466	1,076	523
Total amortisation expense	2,955	3,955	4,345	3,876	1,792

Source: Calliden.

²⁷ Approximately \$170 million of these tax losses are disputed by the ATO.



Outstanding claims liability and reinsurance and other recoveries receivable

- 81 Calliden determines outstanding claims liability based on a central estimate of the future cash flows, a discount rate for the effect of the time value of money and a risk margin for uncertainty (at the 75% probability of sufficiency). Between 31 December 2013 and 30 June 2014, there was a significant reduction of outstanding claims liability of \$8.1 million, primarily reflecting the 'run-off' of portfolios that have been transitioned to third party insurers.
- 82 The reinsurance and other recoveries receivables are offsets to these insurance liabilities, but are recorded as a separate asset in the balance sheet. These amounts have reduced (by some \$7.3 million between 31 December 2013 and 30 June 2014), primarily due to the reduced insurance exposure and the reduction of proportional reinsurance.

Capital adequacy

- 83 As an APRA regulated insurer, Calliden has to hold a minimum amount of capital, Prescribed Capital Requirement (PCR). In practice, however, a higher level of capital is needed to operate the business (e.g. to avoid minor temporary fluctuations in experience causing a breach of the regulatory capital requirement). The target level of capitalisation for Calliden is identified by consideration of factors including:
- (a) the probability of ruin over the next one to three years
 - (b) the probability of falling below the APRA PCR over the next one to three years
 - (c) other stakeholder perspectives on capitalisation, including rating agency capital models and associated ratings; and
 - (d) domestic and international levels of capitalisation.
- 84 The amount of capital required varies according to the business underwritten, the extent of reinsurance and asset allocation. Calliden ensures that each of the APRA authorised entities within the Group maintain an adequate capital position, and hold regulatory capital levels in excess of the PCR. Calliden translates targets and actual capital levels into a multiple of the Prescribed Capital Amount (PCA) by applying the APRA prescribed methodology for a Level 2 Insurance Group. The Capital Adequacy Multiple (CAM), being a multiple of the PCA, is set out below:

Calliden – regulatory capital compliance				
	31 Dec 13		30 Jun 14	
	Calliden Group Ltd	Calliden Insurance Ltd	Calliden Group Ltd	Calliden Insurance Ltd
	\$000	\$000	\$000	\$000
Statutory capital	49,990	56,998	48,751	54,212
PCA	21,464	20,515	22,705	22,110
CAM (times)	2.3	2.8	2.1	2.5

Source: Calliden.

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Franking credits

- 85 As at the date of this report, Calliden had franking credits of some \$23.1 million²⁸. These are discussed further in Section VI of this report.

Share capital and performance

- 86 As at the date of this report, Calliden has 226,683,914 ordinary shares on issue.

Incentive rights

- 87 Calliden operates a short-term (STI) and long-term incentive (LTI) plans for eligible key management personnel (KMP). The plans are intended to engage KMP in the success of the business by linking rewards with the performance of the company. Under the plans, participating KMPs receive annual grants of incentive rights. Subject to the rules of the plans, each incentive right entitles the KMP holding that right, for no consideration, one fully-paid ordinary share in Calliden at the end of the performance period if performance and/or service criteria specified by the Board are satisfied over the performance period.
- 88 As at 30 June 2014 Calliden had 15,155,900 incentive rights outstanding²⁹:

Calliden – incentive rights			
Tranche	Issue price	No of rights	Vesting conditions
2011 LTI Scheme	\$0.256400	68,900 ⁽¹⁾	Blend of time based and total shareholder return measures
2012 LTI Scheme	\$0.191400	8,249,000	Blend of time based and total shareholder return measures
2014 LTI Scheme	\$0.261822	3,897,000	Blend of time based and total shareholder return measures
2014 STI Scheme	\$0.261822	2,941,000	Blend of NPAT and other qualitative performance measures

Note:

- 1 Excludes 2011 incentive rights for which performance testing has already been assessed and upon which no rights will vest.

Source: Calliden.

- 89 The incentive rights are equity settled and we understand that to satisfy vesting rights, the trustee for the LTI plan acquires Calliden shares by on-market purchases. As at 30 June 2014, the trustee for the LTI plan held 3,977,697 shares on trust in order to satisfy Calliden's future STI and LTI obligations.
- 90 In the event of a change in control (including a takeover), the vesting conditions attached to the tranche at the time of the offer will cease to apply and unvested incentive rights will vest in the proportion that the share price has increased relative to the original issue price (or such greater proportion as determined at the discretion of the Board). The maximum entitlement is limited to 100%.

²⁸ After allowing for the payment of the interim (fully) franked dividend for 1H14 of 1.0 cent per share.

²⁹ No further rights have been issued by Calliden post that date.



Substantial shareholders

- 91 As at 10 September 2014 the substantial (i.e. 5% or more) beneficial shareholders in Calliden were:

Calliden – substantial (beneficial) shareholdings		
	Shares held	%
Australian Unity	30,142,850	13.3
First Samuel	19,002,351	8.4
Greencape Capital	18,692,123	8.2
Naos Asset Management	18,064,437	8.0
Adam Smith Asset Management	13,483,383	5.9

Source: Calliden.

Share price performance

- 92 The price of Calliden shares from 1 July 2011 to 26 August 2014³⁰ is summarised below:

Calliden – share price performance table				
	High ⁽¹⁾ \$	Low ⁽¹⁾ \$	Close \$	Monthly Volume ⁽²⁾ 000
Quarter ended				
September 2011	0.24	0.17	0.18	1,553
December 2011	0.21	0.17	0.19	893
March 2012	0.19	0.10	0.12	3,310
June 2012	0.16	0.11	0.12	2,337
September 2012	0.16	0.12	0.14	1,354
December 2012	0.18	0.12	0.16	1,920
March 2013	0.22	0.15	0.20	3,285
June 2013	0.34	0.19	0.30	7,097
September 2013	0.40	0.26	0.36	8,100
December 2013	0.38	0.23	0.26	5,621
Month ended				
January 2014	0.29	0.26	0.28	2,194
February 2014	0.32	0.27	0.31	5,190
March 2014	0.35	0.31	0.35	6,008
April 2014	0.38	0.35	0.38	4,540
May 2014	0.38	0.36	0.38	1,921
June 2014	0.38	0.31	0.36	1,725
July 2014	0.38	0.35	0.38	3,513
August 2014 (up to and including 26 August 2014)	0.37	0.33	0.35	1,493

Note:

1 Based upon intraday trading.

2 Including treasury share acquisitions by Calliden. Monthly volumes for the quarter ended represent average monthly volumes.

Source: Bloomberg.

³⁰ Being the last full day of trading prior to the announcement of the Scheme.

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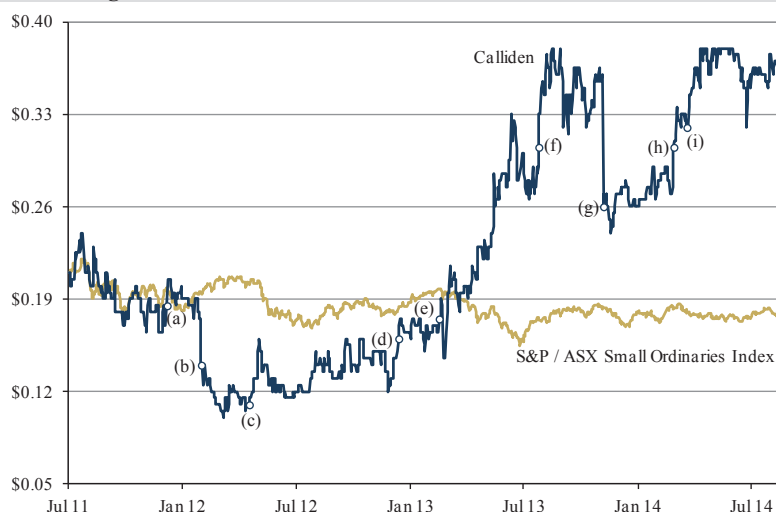
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- 93 The following graph illustrates the movement in the Calliden share price compared to the S&P / ASX Small Ordinaries Index over a three year period from 1 July 2011 to 26 August 2014.

Calliden – share price history⁽¹⁾
1 July 2011 to 26 August 2014



Note:

¹ Based upon closing prices. The S&P / ASX Small Ordinaries Index has been rebased to Calliden's last traded price on 1 July 2011 (\$0.21).

Source: Bloomberg.

- 94 The material movements in the share price of Calliden are explained as follows:
- (a) **6 December 2011** – announced the sale of its 50% interest in CSA to Innovation Group plc (for a profit of \$8.3 million)
 - (b) **30 January 2012** – announced that its loss for FY11 is likely to be between \$11.5 million and \$12.5 million
 - (c) **16 April 2012** – announced that results from the first quarter of FY12 had been in line with expectations both in respect of a strategic alliance entered at the end of FY11 with Great Lakes Australia (a subsidiary of Munich Re) and also Calliden Insurance's claims experience. Typically, the first and fourth quarters (i.e. the Australian summer) are the most active periods for natural catastrophe claims
 - (d) **12 December 2012** – provided an update on the implementation of the repositioning of the business (i.e. agency model) and indicated that Calliden will be targeting profit of \$10 million for FY13
 - (e) **15 February 2013** – announced that Calliden insurance's claims experience for the first quarter of FY13 is within its annual expectation
 - (f) **25 July 2013** – in response to an ASX price query, Calliden announced that it was not aware of any information that could explain the increase in volume and share price



- (g) **6 November 2013** – announced FY13 profit to be in a range of between \$5 million and \$7 million, lower than the previous guidance of \$10 million, primarily due to losses in the Builders' Warranty portfolio
- (h) **27 February 2014** – announced FY13 profit of \$6.2 million and a fully franked special dividend of 2.7 cents per share
- (i) **20 March 2014** – announced the sale of its 50% holding in Arena Underwriting to Action Entertainment Insurance Pty Limited.

Liquidity in Calliden shares

- 95 The liquidity in Calliden shares based on trading on the ASX over the year to 26 August 2014 is set out below:

Calliden – liquidity analysis						
Period	Start date	End date	No of shares traded ⁽¹⁾ 000	WANOS Outstanding ⁽²⁾ 000	Implied level of liquidity Period ⁽³⁾ %	Implied level of liquidity Annual ⁽³⁾ %
1 month	27 Jul 14	26 Aug 14	1,839	222,706	0.83	9.91
3 months	27 May 14	26 Aug 14	6,930	222,706	3.11	12.45
6 months	27 Feb 14	26 Aug 14	21,583	222,704	9.69	19.38
1 year	27 Aug 13	26 Aug 14	44,844	223,206	20.09	20.09

Note:

- 1 Excluding treasury share acquisitions by Calliden.
- 2 Weighted average number of shares outstanding (WANOS) during relevant period excluding treasury shares.
- 3 Number of shares traded during the period divided by WANOS.
- 4 Implied annualised figure based upon implied level of liquidity for the period.

Source: Bloomberg, Calliden and LEA analysis.

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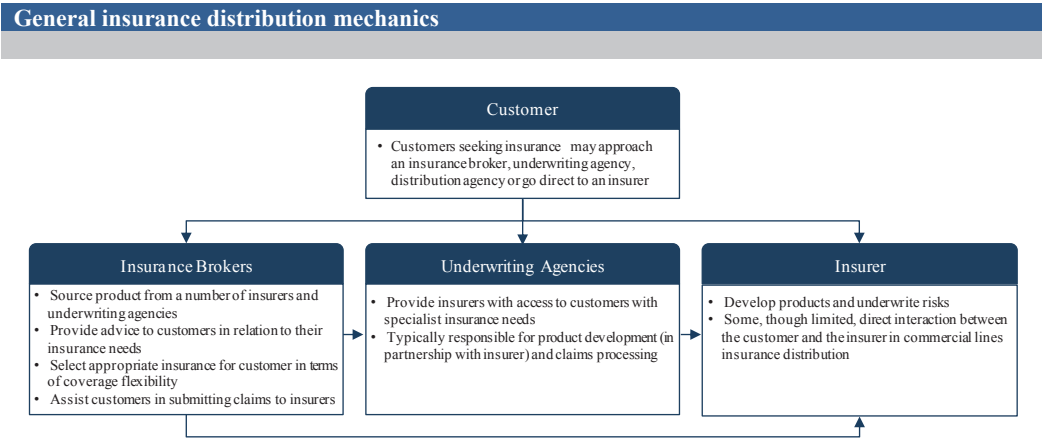


IV Australian general insurance industry

96 Calliden operates within the Australian general insurance industry as a general insurer, through its Insurance Division, and as an underwriting agency through its Agency Division. Accordingly, this industry section focuses on the operations of general insurers and underwriting agencies in the Australian market.

Overview

- 97 The Australian general insurance industry includes all insurance classes except life and health, and is generally broken down between domestic / personal and commercial product lines. The industry comprises of three primary intermediaries: insurance brokers, underwriting agencies and general insurers. General insurers underwrite insurance policies that protect individuals and businesses from potential financial loss associated with certain insured events. In return, these general insurers receive premiums for assuming these risks and covering certain expenses. These premiums, net of expenses, are then pooled and invested into financial assets. When an insured event occurs, the insurer pays the insured person or entity monetary compensation from the invested funds, and from any reinsurance protections it has in place, in accordance with the terms of the policy.
- 98 General insurance policies may be sold to customers either directly by an insurer or by way of intermediary, such as an insurance broker or underwriting agency. The insurer carries the underwriting risk associated with these policies and incurs the cost of claims (except to the extent to which they have sought reinsurance, in which case the reinsurer bears that risk). Neither the insurance broker nor the underwriting agency is liable for the cost of claims under these policies. The following diagram demonstrates the key elements of general insurance distribution and the role of intermediaries:



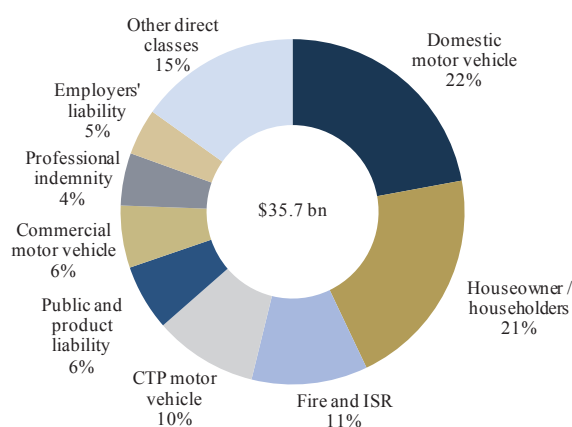
Source: Steadfast Prospectus.

General insurers

- 99 General insurers underwrite policies aimed at protecting insured parties against losses associated with property, casualty, liability and other risks. General insurance products and services can be divided into personal and commercial lines:
- (a) **personal lines** – includes coverage for motor vehicles including compulsory third party (CTP), home and home contents, boats, caravans, and travel insurance etc; and
 - (b) **commercial lines** – includes coverage for business operations, employer's liabilities (workers' compensation), public liability and professional indemnity etc.
- 100 As displayed by the following diagram, total GWP is dominated by personal lines of domestic motor vehicle insurance and houseowner / householder insurance:

GWP by class of business

12 months ended 30 June 2014



Source: APRA Quarterly General Insurance Performance Statistics June 2014.

Competition

- 101 As at 30 June 2014, there were 115 general insurance companies in Australia. It is a competitive industry, however, there has been a steady consolidation in the number of licensed insurers over the past five years, as a result of some insurance groups rationalising licenses acquired through previous acquisition activities. The consolidation of the general insurance industry is shown below:

Industry structure					
	30 Jun 10	30 Jun 11	30 Jun 12	30 Jun 13	30 Jun 14
Number of licensed insurers	118	115	112	109	103
Number of licensed reinsurers	12	12	12	12	12
Total licensed insurers / reinsurers	130	127	124	121	115

Source: APRA Quarterly General Insurance Performance Statistics.

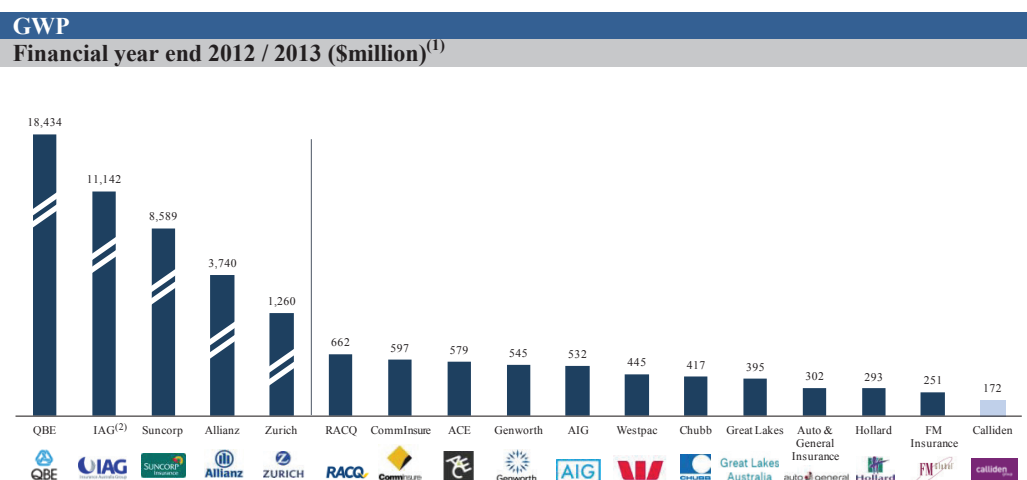
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- 102 This consolidation has created larger insurers that have the capital and diversity to withstand major loss events, and has also led to a more concentrated market, particularly in direct personal lines. This consolidation is demonstrated with the top three major listed general insurers (QBE Insurance Group Limited (QBE), Insurance Australia Group Limited (IAG) and Suncorp Group Limited (Suncorp)) accounting for over 75% of GWP:



Note:

- 1 Above companies have different year ends and are a mix of financial year ended 30 September 2012, 31 December 2012 and 30 June 2013. GWP is in Australian dollars other than QBE, which is reported in US dollars.
- 2 IAG acquired Wesfarmers Insurance effective 30 June 2014. Accordingly the IAG figure has been adjusted to include Wesfarmers Insurance GWP.

Source: KPMG General Insurance Survey 2013.

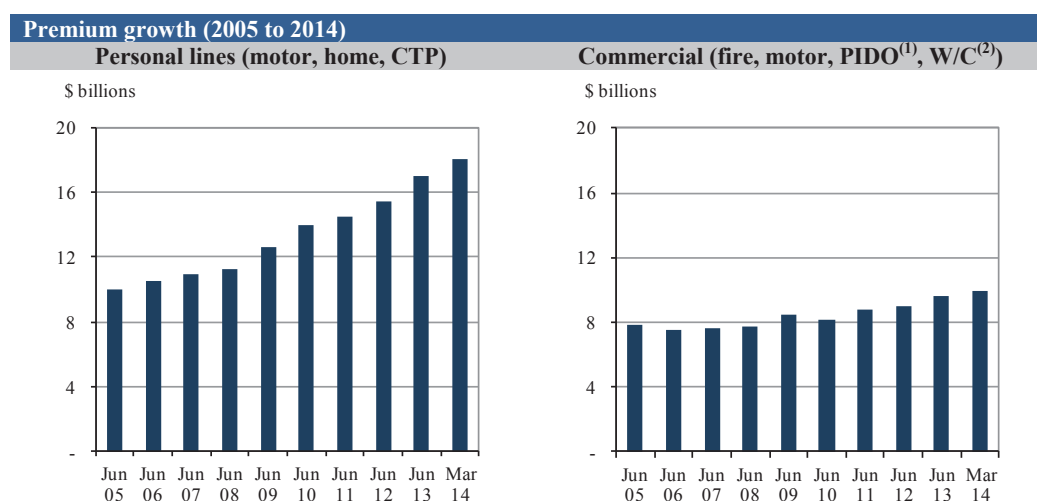
- 103 However, the consolidation of the industry has not reduced competition or innovation, and it is still important that competitors in the market provide differentiated product offerings through innovative business strategies, improved business operations and strategic use of analytics and technology. The industry, particularly motor insurance, has seen increasing competition driven by factors such as lower barriers to entry, increased product commoditisation, product innovation and technical innovation.
- 104 Furthermore, competition is expected to rise with recent new entrants to the market, including challenger brands (Youi, Progressive, Real, Budget Direct) and aggregator sites (iSelect, Rate City) whose products are sold mainly via the internet, and non-traditional new distributors such as supermarkets (Coles, Woolworths), Virgin Money and Australia Post who are looking to extract further value from their large customer base and distribution networks. The decision for these retailers to expand into offering financial services follows the actions of other retailers offshore who have been successful in competing within this marketplace.
- 105 The industry is also exposed to foreign competition. Whilst the top three general insurers in Australia are Australian owned, many of the next tier of companies are foreign owned, with Allianz being the most successful foreign insurer. In the personal lines market, the presence



of various foreign insurers as well as large retail groups are having an impact as they seek to build market share, particularly in the domestic motor class of business.

Historical performance

- 106 Personal lines have grown faster than commercial lines in the past 10 years. Commercial line premiums have only grown 25% since 2005, with the majority of the growth in the past three years relating to property insurance (mainly driven by reinsurance costs). By contrast, premiums in personal lines have grown by 80% over the same period:



Note:

1 Professional Indemnity including Directors and Officers.

2 Workers' Compensation.

Source: Finity & Deutsche Bank: General Insurance Pendulum (25 July 2014).

- 107 In terms of premium rates, the industry showed strong increases in 2013 amongst domestic lines of 8% (predominantly driven by householders) while commercial lines premium rates decreased by 1%³¹.
- 108 Distribution of general insurance varies significantly between commercial and personal lines. Commercial lines are predominately distributed by insurance brokers (82%) and underwriting agencies (5%)³². By contrast, direct channels represent the primary form of distribution for personal lines, with call centres representing 42% of distribution and internet 18% of distribution, while insurance brokers and underwriting agencies account for just 8% and 1% respectively. However, there has been an increasing trend towards distribution of personal insurance through other financial intermediaries and services companies such as banks, motor dealerships and finance companies, other types of insurers and online travel companies.

³¹ 2013 JP Morgan and Taylor Fry General Insurance Barometer.

³² Steadfast Group Limited Prospectus.

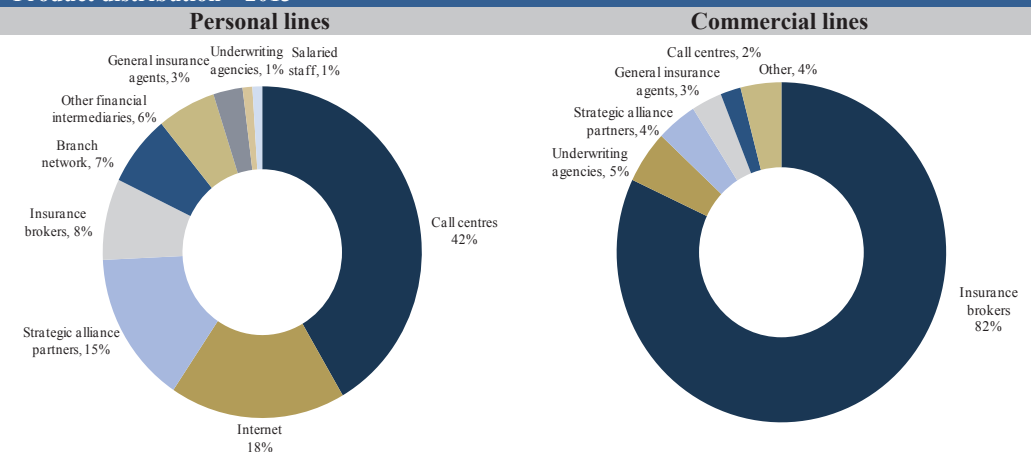
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Product distribution – 2013



Source: 2013 J.P. Morgan Taylor Fry General Insurance Barometer.

Underwriting agencies

- 109 Underwriting agencies are providers of specialist insurance policies catering to specific market segments. Underwriting agencies work in conjunction with general insurers to design and develop these specialist policies, determine risk coverage and, in certain cases, manage claims and underwriting processes. Underwriting agencies do not underwrite or bear the underlying risk for the insurance policies that they offer, which are borne by the general insurer. Key characteristics of underwriting agencies include:
- (a) specialist knowledge, with relationships and access to markets for specialist products or services
 - (b) assessment of unusual risks
 - (c) entrepreneurial and opportunistic – can easily dive in and out of a market segment
 - (d) focus on customer service.
- 110 One of the main drivers of business growth for underwriting agencies has been their ability to provide quick access to specialist insurance knowledge and their greater willingness to access unusual risks. The majority of the policies developed by underwriting agencies are for specific commercial risks, which are then offered either directly to the customer or to the insurance broker market. Underwriting agencies are estimated to have accounted for approximately 5% of commercial lines insurance sales direct to customers in 2013³³.
- 111 Underwriting agencies have historically been set up by individuals with expertise in a market or product segment, and as such, around 50% of agencies are owned, or partly owned by individuals³⁴. However, over recent years there has been an increase of general insurers and insurance brokers buying into the underwriting agency market. General insurers typically buy

³³ 2013 JP Morgan and Taylor Fry General Insurance Barometer.

³⁴ Finity & Deutsche Bank: General Insurance Pendulum (25 July 2014).



into the agency market as it is a relatively immediate and affordable approach to access specialist markets and increase their market share and expertise. On the other hand, insurance brokers buy into the agency market in an attempt to increase profit potential by earning a commission from the underwriter in addition to the normal broker's commission. The ownership of the agency also enables the broker to differentiate its business as a specialist as well as securing its distribution channel.

Customer base

112 Underwriting agencies typically cater for customers with more complex insurance needs, such as small and medium enterprises (SMEs) and corporate customers. The two primary types of customers targeted by underwriting agencies are *end customers* (insured by policies developed by the underwriting agency) and *intermediaries* (such as insurance brokers):

- (a) *end customers* – choose to go directly to an underwriting agency where an established relationship exists between the customer and the underwriting agency, or where the agency specialises in a known business or product niche; and
- (b) *intermediaries* – use underwriting agencies as they provide insurance brokers the ability to offer a broader selection of policies to their customers and provide greater access to insurance policies catering to niche segments in which general insurers do not otherwise offer policies.

Competitors

113 The number of underwriting agencies in Australia has grown significantly in recent years, increasing from around 70 in 2007 to almost 120 in 2014³⁵. The Underwriting Agencies Council (UAC), which is a representative body formed in 1998, currently represents the interests of 90 of the 120 underwriting agencies in Australia, and estimates that its members collectively write \$3 billion of commercial line GWP³⁶.

Market drivers

114 Revenue growth in the underwriting agency market has been driven predominantly by an increase in the number of agencies catering to product niches, along with the decision by some general insurers to distribute certain policies or service certain market segments via underwriting agencies rather than through their own sales force. This decision is typically due to the relatively small size of the customer segment or the specialist nature of the category of risk.

Regulation

115 Australia's financial regulation framework is based on three separate agencies operating on functional lines:

- (a) APRA – responsible for prudential regulation and supervision of Authorised Deposit-taking Institutions (ADIs), general insurance, life insurance and reinsurance companies, and superannuation funds

³⁵ Finity & Deutsche Bank: General Insurance Pendulum (25 July 2014).

³⁶ Finity & Deutsche Bank: General Insurance Pendulum (25 July 2014).

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- (b) ASIC – responsible for the monitoring, regulation and enforcement of the corporations law and financial services law as well as the promotion of market integrity, and investor protection; and
- (c) Reserve Bank of Australia (RBA) – responsible for monetary policy, overseeing financial system stability and oversight of the payments system.

116 In addition, the Australian Competition and Consumer Commission (ACCC) has responsibility for competition policy across the entire economy, including the financial sector.

117 Australian legislation provides APRA with strong powers to regulate and intervene in the operations of insurers to protect policyholders interests and to maintain the stability of the financial system.

Outlook

118 Finity and Deutsche Bank anticipate that the commercial lines market will remain soft with limited growth opportunities (a function of insurance market saturation as well as limited overall economic growth). Furthermore, they expect rationalisation of the ownership of underwriting agencies in order for companies to generate growth, and unlock distribution and expense efficiencies³⁷. In addition, low investment returns continue to pose challenges to the profitability of long-tail classes of business³⁸.

³⁷ Finity & Deutsche Bank: General Insurance Pendulum (25 July 2014).

³⁸ APRA insight, Issue 3 2013.

V Valuation methodology

Valuation approaches

- 119 RG111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 120 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 121 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 122 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

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- 123 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

- 124 Our assessment of the market value of Calliden is based upon a sum-of-the-parts approach whereby the market value of its individual business divisions (i.e. Insurance and Agency) is added to the net realisable value of surplus assets less net borrowings.

Insurance Division

- 125 The market value of Calliden's Insurance Division has been assessed on a going concern basis by aggregating the capitalised value of its insurance profit with the value of shareholders funds (net of intangibles).
- 126 The primary valuation methodology used is the capitalisation of earnings method. Under this methodology, the normalised insurance profit is multiplied by an appropriate (insurance profit) multiple to derive our assessed value.
- 127 Insurance profit is generally defined as the underwriting profit less all expenses associated with the insurance operations, plus the investment income generated on technical reserves. Technical reserves are the amounts insurance companies set aside to cover claims, and include assets held to meet outstanding claims and unearned premium liabilities.
- 128 In contrast, the investment income generated on shareholders' funds (net of intangibles) is a separate income stream which should not be considered part of the insurance profit. Further, because insurance companies in Australia are required to mark assets to market value, the amount of shareholder's funds (net of intangibles) equates to the market value of the corresponding net tangible assets (NTA).
- 129 The appropriate insurance profit multiple has been derived having regard to, inter-alia, the insurance profit multiples implied for comparable listed companies and from transaction evidence (based on the value attributed to their insurance businesses excluding shareholder NTA, divided by insurance profit before tax).
- 130 In order to cross-check the valuation derived by the primary method, we have also considered the value as a multiple of net earned premium (NEP).

Agency Division

- 131 The value of Calliden's Agency Division has been made on the basis of market value as a going concern. The primary valuation methodology used is the capitalisation of future maintainable earnings approach (using EBITA). Under this methodology, the value of the business is represented by its (normalised) underlying EBITA capitalised at a rate (or EBITA multiple) reflecting the risk inherent in those earnings.
- 132 In our opinion, the capitalisation of EBITA method is the most appropriate methodology because:



- (a) the division is relatively mature (albeit growing), has an established market position and a demonstrated history of profitability, which is expected to continue
- (b) we do not have long-term cash flow projections which we regard as sufficiently robust to enable a DCF valuation to be undertaken
- (c) EBITA multiples for listed companies exposed to similar industry sectors can be derived from publicly available information
- (d) transaction evidence in the sector is generally expressed in terms of EBITA multiples.

133 We have cross-checked our valuation of the Agency Division by reference to the capitalisation of net profit after tax (or PE) method.

Overall

134 We have also compared our overall valuation of Calliden to its listed share price prior to the announcement of the Scheme (as adjusted for a theoretical premium for control).

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VI Valuation of 100% of Calliden

Overview

- 135 As stated in Section V, our assessment of the market value of Calliden is based upon a sum-of-the-parts approach whereby the market value of its individual business divisions (i.e. Insurance, Agency and Corporate) is added to the net realisable value of surplus assets less net borrowings.
- 136 It should be noted that Calliden has not previously disclosed the financial results of its individual divisions on a standalone basis. Rather Calliden's financial report segment note disclosures for the Insurance and Agency divisions firstly, incorporate an allocation of corporate overheads and secondly, are reported net of certain revenue and expense eliminations that occur as result of consolidation accounting³⁹. The standalone accounts for each of the divisions have been separately prepared and provided to us by Calliden for FY13 (on a half year and full year basis) and 1H14.
- 137 Although Calliden could also theoretically prepare standalone accounts for the divisions for FY11 and FY12, it should be noted that as a result of the significant structural changes the Company has undergone, the underlying components of each division have changed as too have the Company's cost allocation methodologies. Accordingly, even if standalone divisional financial results were prepared for those years, they could not be meaningfully compared to the more recent periods (i.e. FY13 and FY14).
- 138 We set out below our assessment of the value of Calliden's individual components.

Insurance Division

- 139 The market value of Calliden's Insurance Division has been assessed on a going concern basis by aggregating the capitalised value of its insurance profit with the value of shareholders' funds (net of intangibles).
- 140 The primary valuation methodology used is the capitalisation of earnings method. Under this methodology, the normalised insurance profit is multiplied by an appropriate (insurance profit) multiple to derive our assessed value.
- 141 In order to cross-check the valuation derived by the primary method, we have also considered the value as a multiple of NEP.

Assessment of normalised insurance profit

- 142 Insurance profit is generally defined as the underwriting profit less all expenses associated with the insurance operations, plus the investment income generated on technical reserves. Technical reserves are the amounts insurance companies set aside to cover claims, and include assets held to meet outstanding claims and unearned premium liabilities.
- 143 In contrast, the investment income generated on shareholders' funds (net of intangibles) is a separate income stream which should not be considered part of the insurance profit. Further,

³⁹ Revenue and expense items that are eliminated upon consolidation relate to the individual agencies which provide services to the Insurance Division (e.g. Calliden Home and Dawes). Reversal of these elimination entries provides a more accurate reflection of the performance of the individual divisions on a standalone basis.



because insurance companies in Australia are required to mark assets to market value, the amount of shareholder's funds (net of intangibles) equates to the market value of the corresponding NTA.

- 144 In order to assess the appropriate level of normalised insurance profit we have had regard to the standalone historical and forecast results of the Insurance Division, and discussed the division's financial performance, operating environment and prospects with Calliden.
- 145 We set out below a summary of the reported financial performance of the Insurance Division together with the standalone results for FY13 and 1H14⁴⁰:

Insurance Division – summary of profitability							
Year ending 31 December	1H11	2H11	1H12	2H12	1H13	2H13	1H14
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GWP (\$m)⁽¹⁾	112.2	112.4	94.7	61.8	52.5	41.0	48.8
Net earned premium⁽¹⁾	51,240	55,110	32,389	27,998	27,622	29,703	30,117
Underwriting profit (reported)	(5,552)	(16,224)	(1,536)	1,754	545	(1,968)	(1,418)
Deduct unallocated superannuation ⁽²⁾					(226)	(236)	(202)
Add-back corporate cost allocations ⁽³⁾					786	785	814
Reverse inter-company eliminations ⁽⁴⁾					136	1,659	(696)
Standalone EBITDA					1,241	240	(1,502)
Add-back catastrophe variation ⁽⁵⁾					331	(1,531)	(1,700)
Add-back other non-recurring claims ⁽⁶⁾					1,995	1,505	2,755
Add-back other non-recurring					-	(404)	74
Normalised standalone EBITDA					3,567	(190)	(373)
Depreciation					(43)	(54)	(50)
Normalised standalone EBITA					3,524	(244)	(423)
Investment income – technical reserves					2,312	1,692	1,909
Normalised insurance profit					5,836	1,448	1,486

Note:

- 1 Excludes fire services levy.
- 2 For financial reporting purposes, Calliden does not allocate the cost of superannuation to either the Insurance or Agency divisions, rather these expenses are separately reported as other administrative expenses.
- 3 Calliden recharges its corporate overheads to its divisions based on estimates of time incurred and an analysis of actual expenditure. This adjustment reverses the allocation of corporate costs which are not required in order to operate the division on a standalone (day-to-day) basis. These primarily relate to public company costs, Director fees, CEO and CFO salaries and general consultancy fees.
- 4 Approximate net revenue and expense items that eliminate upon consolidation as per Calliden's segment note reporting (although the amounts do not precisely net out, we do not consider the differences to be material).
- 5 Being the amount by which actual catastrophe costs (after reinsurance) varied from expected cost.
- 6 Other non-recurring claims are largely the deterioration of the outstanding claims liability for long-tail business, particularly Builders' Warranty.

- 146 As part of assessing the maintainable earnings of Calliden's Insurance Division we have considered an expected profitability analysis for the current insurance business. This was prepared using the following parameters:

⁴⁰ As discussed above at paragraphs 136 and 137, standalone results for prior periods have not been prepared.

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- (a) current mix of business expected to be issued in 2014
- (b) expected loss ratios estimated by the appointed actuary as applicable for the premium liabilities as at 30 June 2014
- (c) expected cost of catastrophes (including catastrophe reinsurance premium and reinsurance recoveries)
- (d) net cost of reinsurance, including reinsurance premium, exchange commission⁴¹ and expected recoveries
- (e) expected expenses (other than head office costs and expenses associated with the run-off of prior outstanding claims)
- (f) expected investment income on technical reserves (policy liabilities for unearned premiums and outstanding claims).

147 This expected profitability analysis indicated an overall loss at the insurance margin level (underwriting result plus investment income on technical reserves).

148 Calliden management expect that this situation will be temporary, as premium rates and underwriting will be adjusted to return the portfolio to profitability. However, the inadequate profitability shown in this analysis is indicative of the competitive pricing in most of the sectors where Calliden operates, as well as Calliden's relatively high expense rate (for instance combined net acquisition and underwriting costs excluding fire services levy averaged some 35% of NEP excluding fire services levy for 1H14).

149 In assessing the normalised insurance profit of Calliden's Insurance Division we have also had regard to the following:

- (a) Calliden's management budget for 2H14 (which cannot be disclosed for commercial reasons), adjusted to bring the loss ratios into line with the appointed actuary's expected loss ratios
- (b) overall market conditions are soft in commercial lines with limited growth opportunities⁴²
- (c) Calliden is a small insurer which generally lacks the market power to influence rates, so that it has to conform to market price levels
- (d) Calliden is a small insurer, operating via intermediaries (who require commission payments), so that its expense rates are relatively high (hence, since it must largely match market prices, its profit margins will be relatively low)
- (e) low current interest rates mean low earnings on technical reserves, which adversely affects profitability, particularly of long-tail classes
- (f) ongoing software development costs which are currently being amortised at a rate of some \$0.2 million per annum and are anticipated to continue indefinitely.

⁴¹ Allowance paid by reinsurer (can be considered as an offset to policy acquisition costs incurred by the direct insurer).

⁴² Finity & Deutsche Bank: General Insurance Pendulum (25 July 2014).

- 150 Having regard to the historical earnings, the expected profitability analysis and the factors noted above, we have adopted a maintainable insurance profit (underwriting margin plus investment earnings on technical reserves) of \$2.7 million per annum (being the normalised insurance profit before amortisation of software of \$2.9 million over the 12 months to 30 June 2014 less \$0.2 million for software amortisation).

Insurance profit multiple

- 151 The selection of the appropriate earnings multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • The stability and quality of earnings • The quality of the management and the likely continuity of management • The nature and size of the business • The spread and financial standing of customers • The financial structure of the company and gearing level • The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors • The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors | <ul style="list-style-type: none"> • The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc • The cyclical nature of the industry • Expected changes in interest rates • The asset backing of the underlying business of the company and the quality of the assets • The extent to which a premium for control is appropriate • Whether the assessment is consistent with historical and prospective earnings |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

- 152 We discuss below specific factors taken into consideration when assessing the appropriate 'insurance profit' multiple range for the Insurance Division.

Listed company multiples

- 153 The insurance profit multiples of ASX listed companies operating in the general insurance sector are set out below:

Insurance Division – ASX listed insurers ⁽¹⁾⁽²⁾				
Company	Year end	Market cap A\$m	Insurance multiple ⁽³⁾	
			FY14 x	FY15 x
QBE	Dec	15,832	11.3	8.5
IAG ⁽⁴⁾	Jun	14,327	8.5	9.5

Note:

- 1 As at 30 September 2014.
- 2 Brief descriptions of each company's operations are summarised in Appendix C.
- 3 Value attributed to insurance business excluding shareholder investment capital (NTA) divided by insurance profit before tax.
- 4 IAG's multiples are calculated on a pro-forma basis taking into account a full year earnings contribution from the Wesfarmers Insurance business (based on the information provided by IAG in its investor presentation dated 19 August 2014). Estimated synergies are not reflected in the earnings used to calculate the earnings multiples.

Source: Company announcements, Bloomberg and LEA analysis.

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- 154 The above multiples are based on the listed market price of each companies' shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover).
- 155 In addition, we note that:
- (a) QBE and IAG are substantially larger and have more diverse operations than the Insurance Division. As a result, the Insurance Division would be expected to trade on lower multiples than QBE and IAG
 - (b) IAG's (pro-forma FY14) insurance multiple is less than that set out above if management's estimate of expected synergies (from the Wesfarmers transaction) are taken into account
 - (c) QBE's FY14 insurance multiple is inflated because the FY14 earnings forecasts reflect QBE's abnormally low profit in the six months to June 2014, due to one-off effects (such as reserve strengthening for Argentina workers' compensation liabilities). The FY15 insurance multiple is more reflective of a normalised insurance profit multiple
 - (d) QBE and IAG adopt a probability of sufficiency⁴³ in relation to outstanding claim liabilities of around 90% which exceeds the 75% minimum required by APRA and used by the Insurance Division. QBE and IAG therefore adopt a more conservative risk margin than Calliden's Insurance Division, which (ignoring other actuarial assumption differences) results in more conservative profit recognition and therefore higher multiples (than if a 75% probability of sufficiency was adopted).

Transaction evidence

- 156 There have also been a number of transactions in the general insurance sector in recent years where either the target was an Australian entity or the target was acquired by an Australian insurer. The insurance profit multiples implied by these transactions are set out below:

Insurance Division – transaction multiples involving general insurers ⁽¹⁾				
Date ⁽²⁾	Target	Interest acquired %	Value \$m	Insurance multiple ⁽³⁾ x
May 14	MTA Insurance Limited	100	A\$55	8.1 (F)
Mar 14	Medical Defence Association of SA Limited ⁽⁴⁾	100	A\$60	na
Mar 14	MDA National Limited ⁽⁴⁾	100	A\$80	na
Dec 13	Wesfarmers Underwriting Business	100	A\$1,845	13.5 (H)
Nov 12	TOWER Medical Insurance Limited	100	A\$81	5.8 (F)
Dec 11	AMI Insurance (New Zealand)	100	NZ\$380	10.3 (H)
Jul 10	RACQ Insurance and RAA Insurance ⁽⁵⁾	50	A\$695	na
Apr 10	NAU Country Insurance Company	100	US\$565	3.8 (F)

⁴³ Representing the probability of outstanding claims liabilities being equal to or in excess of actual claims (based on the risk margin applied in actuarial assessments).

Note:

- 1 Brief descriptions of each target's operations are summarised in Appendix C.
- 2 Date of announcement.
- 3 Value attributed to insurance business excluding shareholder investment capital (NTA) divided by insurance profit before tax.
- 4 Based upon the value of insurance business excluding surplus capital.
- 5 The price received by Suncorp for its 50% interest in both RACQ Insurance and RAA Insurance was based on an independent valuation of the businesses. For confidentiality reasons, the earnings multiples adopted in the valuation cannot be disclosed.

na – not available. H – Historic multiple. F – Forecast multiple.

Source: Company announcements, press commentary and LEA analysis.

157 In relation to the transaction evidence it should be noted that:

- (a) the transactions relate to the acquisition of a 100% controlling or 50% joint controlling interest in the businesses and therefore implicitly incorporate a premium for control
- (b) none of the above businesses are directly comparable to Calliden's Insurance Division. In particular, NAU Country Insurance Company is a US multi-peril crop insurance business and TOWER Medical Insurance Limited is a New Zealand health insurer
- (c) the companies acquired differ materially in terms of their size and nature of operations. Accordingly, in our view, the median or average multiples implied by these transaction are not necessarily representative of the multiples which should be applied to the Insurance Division
- (d) the transaction multiples are calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The multiples are therefore not necessarily reflective of the multiple which would be derived from an assessment of each target company's "maintainable" earnings
- (e) whilst the multiple implied by the acquisition of RACQ Insurance and RAA Insurance cannot be disclosed for confidentiality reasons, we note that the businesses were larger than the Insurance Division
- (f) analysts and other market commentators have suggested that IAG paid a strategic premium for Wesfarmers insurance business. In part, the high multiple paid also reflects the significant synergies which IAG expected to be achieved from the acquisition (being \$140 million per annum⁴⁴) in comparison to the standalone earnings of the business (the insurance profit was \$109 million in FY13). If 50% of the synergies were attributed to the target, we note that the implied insurance profit multiple reduces to 8.2 times
- (g) those companies for which the probability of sufficiency in relation to outstanding claim liabilities was stated ranged between 85% and 90%.

⁴⁴ At date of announcement (16 December 2013). The estimate was later increased to \$230 million in IAG's investor presentation dated 19 August 2014.

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Relative size, risk and growth factors

- 158 Calliden is a small general insurance business and currently generates some 52% of its GWP from its own Agency Division⁴⁵, and has a significant volume of business provided by brokers affiliated with Steadfast both directly and indirectly through the Agency Division. A significant part of Calliden's non-broker business is derived via its contract with Australian Unity (AU), which is up for renewal in two years. This relative concentration in distribution channels significantly increases business risk compared to larger insurance companies. As a result the insurance profit multiple applied to Calliden would normally be lower than the multiple appropriate for larger more diverse insurance businesses.
- 159 Calliden has reduced its GWP significantly over the last few years, due its change in strategic direction. Accordingly, it is difficult to see strong prospects for growth in its insurance business.
- 160 Calliden has significant liabilities in respect of its run-off of long-tail liability business (particularly Builders' Warranty), which is relatively large compared to its ongoing insurance business. We note that the deterioration in this book has caused some \$5.1 million non-catastrophe non-recurring claims variation over the 18 months to 30 June 2014. The risk associated with this run-off book (especially relative to the size of the ongoing book) would detract from the value associated with its insurance business.
- 161 Calliden has low 'ownership' of its policyholders because its insurance business is all intermediated and the primary policyholder relationship is with the intermediary (brokers, underwriting agencies or AU). Accordingly, its ability to retain and grow the business (and sustain profit margins) is reduced relative to insurers who have greater ownership of their policyholders. Therefore the multiple of earnings applicable to Calliden would be lower than for most insurers.

Conclusion on appropriate insurance profit multiple

- 162 Based on the above, in our opinion, an insurance profit multiple of 5.0 to 6.0 times is appropriate when applied to the level of insurance profit adopted for valuation purposes. At this level, the value of the business is similar to the value of the deferred acquisition cost asset carried on the balance sheet.

Shareholders' funds (net of intangibles)

- 163 As at 30 June 2014, the Insurance Division had shareholders' funds (net of intangibles) of \$39.8 million, as shown below:

Insurance Division – shareholders' funds (net of intangibles)	
	30 Jun 14
	\$m
Statutory capital	54.2
Less deferred acquisition costs	(14.4)
Shareholders' funds (net of intangibles)	39.8

- 164 This amount needs to be added to the capitalised value of the insurance profit.

⁴⁵ Based on 1H14 GWP excluding fire services levy.



Value of the Insurance Division

165 On the basis of the above, we have valued the Insurance Division as follows:

Insurance Division – valuation		
	Low	High
	\$m	\$m
Insurance profit (pre-tax)	2.7	2.7
Insurance multiple (pre-tax)	5.0	6.0
Capitalised value of insurance profit	13.5	16.2
Shareholders' funds (net of intangibles)	39.8	39.8
Value of Insurance Division	53.3	56.0

Cross-check based on NEP

166 We have cross-checked our assessed valuation range by considering the value (excluding surplus capital) as a multiple of NEP.

167 As at 30 June 2014, the Insurance Division's PCA was \$22.1 million and its actual capital base for regulatory purposes was \$54.2 million. Given the relatively small size of Calliden (and hence variability of results), the uncertainties due to its relatively recent transformation and the variability associated with its long-tail liabilities, in our opinion, it would be appropriate to maintain a regulatory capital base equal to 2.0 times the PCA. On this basis, the level of surplus capital is as follows:

Insurance Division – surplus capital	
	\$m
PCA	22.1
PCA coverage ratio (multiple)	2.0
Appropriate regulatory capital base	44.2
Actual regulatory capital base	54.2
Surplus capital	10.0

168 We note that while we would consider this to be surplus capital, the actual ability to extract these funds from the regulated entity would be subject to APRA approval.

169 Our assessed valuation range (excluding surplus capital) as a multiple of NEP is therefore as follows:

Insurance Division – assessed value / NEP		
	Low	High
	\$m	\$m
Assessed value range	53.3	56.0
Less surplus capital	(10.0)	(10.0)
Value excluding surplus capital	43.3	46.0
NEP (12 months to 30 June 2014)	59.8	59.8
Assessed value / NEP (times)	0.72	0.77

170 In comparison, the NEP multiples for the listed companies and transactions is as follows:

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Insurance Division – NEP multiples (market evidence) ⁽¹⁾		
	EV / NEP ⁽²⁾ x	Margin ⁽³⁾ %
Listed companies (as at 26 September 2014)		
QBE (based NEP for FY15) ⁽⁴⁾	1.19 (F)	10.7 (F)
IAG (based NEP for FY14)	1.54 (H)	17.0 (H)
Transaction evidence		
MTA Insurance Limited	1.38 (F)	18.8 (F)
Medical Defence Association of SA Limited	1.44 (F)	na
MDA National Limited	1.37 (F)	na
Wesfarmers Underwriting Business	1.26 (H)	7.4 (H)
TOWER Medical Insurance Limited ⁽⁵⁾	0.63 (F)	7.9 (F)
AMI Insurance (New Zealand)	1.07 (H)	8.8 (H)
RACQ Insurance and RAA Insurance	1.02 (H)	na
NAU Country Insurance Company ⁽⁶⁾	0.93 (F)	16.3 (F)

Note:

- 1 Brief descriptions of each company's operations are summarised in Appendix C.
 - 2 Enterprise value (excluding surplus capital) divided by NEP.
 - 3 Insurance profit (before tax) divided by NEP.
 - 4 We consider FY15 to be more reflective of normalised NEP and insurance profit.
 - 5 TOWER Medical is a New Zealand health insurer.
 - 6 We note that NAU Country Insurance Company is a US multi-peril crop insurance business.
- na – not available. H – Historic multiple. F – Forecast multiple.
Source: Company announcements, press commentary and LEA analysis.

- 171 The value of Calliden (excluding surplus capital) as a multiple of NEP is therefore toward the lower end of the range implied by listed insurance companies and transaction evidence. However, we note that Calliden's insurance profit margin (as a percentage of NEP) is also low at 4.5% (being \$2.7 million of normalised insurance profit, after software amortisation, divided by NEP of \$59.8 million for the 12 months to 30 June 2014). Accordingly, we have concluded that our assessed value is reasonable.

On-Sale Agreement

- 172 We note that under the On-Sale Agreement, MHA will acquire the CIL Sale Assets (i.e. the Insurance Division) and the Business Package and Commercial agency operations for \$50.7 million (subject to possible adjustments). The On-Sale Agreement states that \$10.0 million, or such other amount as MHA nominates, will be allocated to the purchase of the agency operations and the remainder (\$40.7 million⁴⁶) to the Insurance Division.
- 173 Whilst we have had regard to this transaction, we do not consider it a reliable cross-check of our valuation of the Insurance Division. This is because the transfer price between MHA and Steadfast is likely to reflect the allocation of corporate costs and other commercial matters agreed between them. We also note that our assessed value of the Insurance Division excludes unallocated corporate costs (which we have valued separately).

⁴⁶ Assuming \$10 million is allocated to the agency operations.

Agency Division

- 174 The value of Calliden's Agency Division has been made on the basis of market value as a going concern. The primary valuation methodology used is the capitalisation of future maintainable earnings approach (using EBITA). Under this methodology, the value of the business is represented by its (normalised) underlying EBITA capitalised at a rate (or EBITA multiple) reflecting the risk inherent in those earnings.

Assessment of normalised EBITA

- 175 In order to assess the appropriate level of EBITA for valuation purposes we have had regard to the standalone historical and forecast results of each individual agency (that make up the Agency Division), and discussed each individual agency's financial performance, operating environment and prospects with Calliden.
- 176 We set out below a summary of the reported financial performance of the Agency Division together with the standalone results for FY13 and 1H14⁴⁷:

Agency Division – summary of profitability							
Year ending 31 December	1H11	2H11	1H12	2H12	1H13	2H13	1H14
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GWP (\$m)⁽¹⁾	44.2	47.9	52.1	62.8	73.0	78.0	75.2
Standalone revenue	na	na	na	na	27,094	27,507	29,914
EBITDA (reported)	1,108	1,501	1,160	(31)	1,968	6,274	4,263
Deduct unallocated superannuation ⁽²⁾					(536)	(553)	(548)
Add-back corporate cost allocations ⁽³⁾					625	625	592
Reverse inter-company eliminations ⁽⁴⁾					(123)	(1,674)	643
Standalone EBITDA					1,934	4,672	4,950
Add-back non-recurring items					1,688	49	154
Normalised standalone EBITDA					3,622	4,721	5,104
Depreciation					(133)	(164)	(168)
Normalised standalone EBITA					3,489	4,557	4,936
Selected metrics							
Revenue / GWP (%)					37.1	35.3	39.8
EBITA / GWP (%)					4.7	5.8	6.6
EBITA / Revenue (%)					12.9	16.6	16.5

⁴⁷ As discussed above at paragraphs 136 and 137, standalone results for prior periods have not been prepared.

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Note:

- 1 Excludes fire services levy.
 - 2 For financial reporting purposes, Calliden does not allocate the cost of superannuation to either the Insurance or Agency divisions, rather these expenses are separately reported as other administrative expenses.
 - 3 Calliden recharges its corporate overheads to its divisions based on estimates of time incurred and an analysis of actual expenditure. This adjustment reverses the allocation of corporate costs which are not required in order to operate the division on standalone (day-to-day) basis. These primarily relate to public company costs, Director fees, CEO and CFO salaries and general consultancy fees.
 - 4 Approximate net revenue and expense items that eliminate upon consolidation as per Calliden's segment note reporting (although the amounts do not precisely net out, we do not consider the differences to be material).
 - 5 The division is required to defer the recognition of certain items of income. The impact of the deferral is significant in periods of high growth (and negligible during periods of steady growth). Management estimate the abnormal revenue deferral (associated with growth) to be \$0.5 million, \$0.3 million and \$0.2 million in 1H13, 2H13 and 1H14 respectively. Fees on the Calliden Home agency were only implemented in mid-May, decreasing the result in 1H13 (relative to later periods) by some \$1.2 million. Redundancy costs incurred in 1H14 totalled \$0.2 million. A change in accounting policy in respect of unclosed premium gave rise to a one-off benefit in 2H13 and 1H14 of \$0.2 million and negative \$0.3 million respectively.
- na – not available.
-

177 In assessing the normalised EBITA of Calliden's Agency Division we have had regard to the following:

- (a) standalone EBITA for the 12 months to 30 June 2014 was \$9.5 million
- (b) GWP for the 12 months to 30 June 2014 was \$153 million (up on all prior years). GWP continues to increase, with results for the 12 months to 31 August 2014 being \$156 million. Furthermore, in early 2015, Calliden expects to launch the link to the Steadfast Virtual Underwriter contestable platform which should significantly increase in the number of quoting opportunities (and in turn GWP) for the Business Package agency. Calliden will also, in late 2014, transfer underwriting responsibilities for IUA's products from the Insurance Division to Lloyd's (opening further opportunity for GWP growth, albeit off a low base). These GWP growth opportunities are partially offset by an exit of Victorian warranty insurance market
- (c) commission rates (i.e. broker fees) incurred by the Calliden Home agency materially increased as of 1 January 2014
- (d) the Calliden Warranty agency contract with SiCorp is due for review at the end of 1H15. There is uncertainty as to whether the contract will be renewed on the same or similar commercial terms which currently exist (we have allowed for this factor in determining the appropriate EBITA multiple)
- (e) the cost of software amortisation is considerable relative to underlying normalised EBITA and for which, in our opinion, an allowance should be made⁴⁸. Of the \$0.9 million and \$0.4 million in software amortisation incurred by Calliden in FY13 and 1H14 (refer to paragraph 80) some \$0.7 million and \$0.3 million related to the Agency Division respectively. Although software amortisation for the division is expected to

⁴⁸ The cost of software amortisation for Steadfast and Austbrokers, which are referred to below (in the context of comparable company trading multiples) is immaterial relative to EBITA.



increase over time (as new projects commence), we also note that the expected incremental returns from these new projects are not reflected in the above stated normalised earnings.

- 178 Having regard to the above, we have adopted EBITA for valuation purposes of \$9.0 million (this includes an allowance for software amortisation).

EBITA multiple

- 179 As stated above (in respect of the Insurance Division) the selection of the appropriate earnings multiple to apply is a matter of judgement and normally involves consideration of a number of factors.
- 180 We discuss below specific factors taken into consideration when assessing the appropriate EBITA multiple range for the Agency Division.

Listed company multiples

- 181 The EBITA multiples of ASX listed companies providing insurance agency / broking services are set out below:

Agency Division – ASX listed insurance brokers ⁽¹⁾⁽²⁾				
Company	Year end	Market cap \$m	EV / EBITA FY14 x	FY15 x
Steadfast	June	752	13.8	11.2
Austbrokers	June	611	12.3	11.2

Note:

1 As at 30 September 2014.

2 Brief descriptions of each company's operations are summarised in Appendix D.

Source: Company announcements, Bloomberg and LEA analysis.

- 182 The above multiples are based on the listed market price of each companies' shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover).
- 183 In addition, we note that:
- (a) neither Steadfast or Austbrokers are directly comparable to the Agency Division, however, they are generally exposed to the same broad insurance industry / market trends
 - (b) furthermore, both companies are significantly larger and have more diverse operations than the Agency Division. In this regard, we note that smaller listed companies generally trade on lower multiples than larger listed companies
 - (c) Steadfast listed on the ASX in August 2013 and made a number of acquisitions in the same month. The company has also made a number of subsequent acquisitions. Steadfast's FY14 earnings do not reflect a full year contribution from the acquired

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entities (or the integration benefits relating thereto). Accordingly, greater regard should be given to its FY15 multiple.

Transaction evidence

184 There have been a number of transactions involving insurance broking / agency entities in recent years. The multiples implied by these transactions are summarised below:

Agency Division – transactions involving insurance brokers ⁽¹⁾⁽²⁾					
			Interest acquired	Value ⁽⁴⁾	EV/ EBITA
Date ⁽³⁾	Target	Acquirer	%	\$m	x
Aug 14	Ausure Group	Steadfast	72	29	7.1 (F)
Apr 14	Wesfarmers’ broking & premium funding operations	Arthur J. Gallagher	100	1,160	10.9 (H)
Aug 13	RIB Group Holdings	Steadfast	90	87	10.8 (F)
Aug 13	National Credit Insurance (Brokers)	Steadfast	100	30	8.9 (F)
Aug 13	Brecknock Insurance Brokers	Steadfast	73	25	11.8 (F)
Aug 13	GWS	Steadfast	80	22	7.7 (F)
Aug 13	Mega Capital Holdings	Steadfast	80	21	7.9 (F)
Jun 13	InterRISK Australia	Austbrokers	77	20	9.0 (F)
Jul 12	Adroit Holdings	Austbrokers	19	24	9.7 (F)

Note:

- 1 Transactions involving insurance broking / agency entities where either the target or the acquirer was an Australian entity. Table includes only those transactions which had a value of greater than \$10 million and which disclosed sufficient financial information to enable the calculation of implied transaction multiples.
 - 2 Brief descriptions of each target's operations are summarised in Appendix D.
 - 3 Date of announcement.
 - 4 Implied value of 100% if transaction does not directly involve a 100% transaction.
- H – Historic multiple. F – Forecast multiple.

Source: Company announcements, press commentary and LEA analysis.

185 In relation to the transaction evidence it should be noted that:

- (a) the transactions (except for Adroit Holdings) relate to the acquisition of a 100% controlling or 50% joint controlling interest in the businesses and therefore implicitly incorporate a premium for control
- (b) none of the above businesses are directly comparable to the Agency Division. We note in particular, that the Wesfarmers transaction also involved the sale of its premium funding operations
- (c) the companies acquired differ materially in terms of their size and nature of operations. Accordingly, in our view, the median or average multiples implied by these transaction are not necessarily representative of the multiples which should be applied to the Agency Division
- (d) the transaction multiples are calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The multiples are therefore not necessarily reflective of the multiple which would be derived from an assessment of each target company's "maintainable" earnings



- (e) the transaction multiples for those entities acquired by Steadfast are based upon annualised actual results for the period 7 August 2013 to 30 June 2014⁴⁹ and may include one-off transaction and other costs which are not apparent based upon published financial information. Forecast results at the time of acquisition may have been higher or lower than the annualised actual results
- (f) the transaction multiples for those entities acquired by Austbrokers are based upon profit before tax (as interest and amortisation expenses were not disclosed). EBITA multiples will be less than those set out above, with the extent of the reduction depending upon the interest and amortisation expenses incurred by those businesses.

186 In addition to the above individual transactions, Steadfast in its prospectus document dated 11 July 2013, stated that it paid an average forecast EBITA multiple of less than 7.0 times⁵⁰ for 64 insurance brokers, underwriting agencies and ancillary businesses, that it acquired immediately prior to the company listing on the ASX⁵¹.

Single contract and customer risk

187 The Agency Division generates the majority of its earnings from four of its 10 agencies. The Calliden Warranty agency (underwritten by SiCorp) is one of those four agencies. Calliden's contract with SiCorp is due for review at the end of 1H15. There is uncertainty as to whether the contract will be renewed on the same or similar commercial terms to those which currently exist.

188 The Agency Division is reliant on insurance brokers and other professional intermediaries to generate demand for its products (and accordingly, has very little 'ownership' of the end customers). Steadfast (collectively⁵²) is the most significant of these intermediary groups and currently generates some 45% of the Agency Division's GWP⁵³. The failure, inability or unwillingness of Steadfast to successfully market (or encourage its broker networks to market) the Agency Division's products could have a material adverse effect on the financial performance and condition of the business.

189 In addition to the above, the Agency Division sells home insurance products to AU members predominantly via the AU website. AU has a 13.3% beneficial shareholding in Calliden⁵⁴. There is uncertainty as to whether this relationship would continue to exist in the absence of AU's equity interest in Calliden.

Conclusion on appropriate EBITA multiple

190 Based on the above, in our opinion, an EBITA multiple of 6.0 to 7.0 times is appropriate when applied to the level of EBITA adopted for valuation purposes.

⁴⁹ July is typically an above average month for broker earnings, hence annualised earnings are likely to be understated.

⁵⁰ During Steadfast's FY14 results conference call Mr Stephen Humphrys, CFO, confirmed that the multiple paid was "on the lower side of the average".

⁵¹ The 64 businesses included those already individually recognised in the transaction table, being RIB Group Holdings, NCIB, Brecknock Insurance Brokers, GWS and Mega Capital Holdings. The acquisitions of equity interests acquired ranged from 25% to 100% and the consideration paid for the individual investments ranged from \$0.6 million to \$78.2 million.

⁵² Steadfast is a network of broker businesses.

⁵³ Based upon GWP for 1H14 (excluding fire services levy).

⁵⁴ As at 10 September 2014.

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Value of the Agency Division

191 On the basis of the above, we have valued the Agency Division as follows:

Agency Division – valuation		
	Low	High
	\$m	\$m
EBITA for valuation purposes ⁽¹⁾	9.0	9.0
EBITA multiple (times)	6.0	7.0
Value of Agency Division	54.0	63.0

Note:

1 Net of an allowance for software amortisation.

192 We have cross-checked our valuation of the Agency Division for reasonableness by reference to the capitalisation of net profit after tax (or PE) method.

Implied PE multiples

193 The PE multiples implied by our assessed valuation range are as follows:

Agency Division – implied PE multiples ⁽¹⁾		
	Low	High
	\$m	\$m
Enterprise value of Agency Division	54.0	63.0
Net cash / (debt) ⁽²⁾	-	-
Implied equity value of Agency Division	54.0	63.0
EBITA for valuation purposes ⁽³⁾	9.0	9.0
Less amortisation of corporate / acquisition integration ⁽⁴⁾	(0.5)	(0.5)
Less amortisation of customer lists ⁽⁵⁾	(0.5)	(0.5)
Net interest income / (expense) ⁽²⁾	-	-
Profit before tax	8.0	8.0
Company tax (at an assumed notional level of 30%) ⁽⁵⁾	(2.6)	(2.6)
Profit after tax	5.5	5.5
Implied PE multiple (times)	9.9	11.6

Note:

- 1 Rounding differences may exist.
- 2 We assumed nil net debt (consistent with the position of Steadfast and Austbrokers). We note that although the Agency Division does hold some cash it is almost completely represented by cash payments received from policyholders, which is effectively held on trust and will be ultimately on paid to insurers / underwriters.
- 3 Net of an allowance for software amortisation.
- 4 In addition to software amortisation, the Agency Division also incurs a share of acquisition integration costs. However, this expense is expected to decline in the coming years.
- 5 Based upon amortisation incurred in the twelve months to 30 June 2014. These costs are not deductible for tax purposes.

194 Although the multiples implied by our valuation are lower than those upon which Steadfast and Austbrokers trade (on a portfolio basis), we nonetheless consider them reasonable given



the much smaller size of the Agency Division and the considerable single contract and customer risks to which the division is subject.

Corporate costs

- 195 Calliden recharges its corporate overheads to its divisions based on estimates of time incurred and an analysis of actual expenditure. The allocation includes a variety of expenses including costs associated with being a public company (e.g. listing fees and share registry fees, shareholder communication costs etc), Director fees, CEO and CFO (and other head office support staff) salaries and general consultancy fees.
- 196 Our valuation of each of Calliden's individual divisions reverses the allocation of these corporate costs which are not required to operate the divisions on a standalone (day-to-day) basis. The following table summarises the reversals that we have made:

Corporate costs			
	1H13 \$000	2H13 \$000	1H14 \$000
Insurance Division – reversal of corporate cost allocation	786	785	814
Agency Division – reversal of corporate cost allocation	625	625	592
Total corporate costs	1,411	1,410	1,406

- 197 Total unallocated corporate costs are approximately \$2.8 million. However, a proportion would be saved in the event that Calliden was acquired and delisted from the ASX⁵⁵. Based upon discussions with management, savings are estimated to be approximately \$1.3 million, with implementation costs (needed to be incurred in order to achieve the savings) of approximately \$0.8 million (pre-tax).
- 198 We have applied a multiple of 6.0 to 7.0 times, which is broadly consistent with the weighted average multiple implied by our valuation of the two divisions.
- 199 Based upon the above, we have valued the remaining corporate costs as follows:

Corporate costs – valuation		
	Low \$m	High \$m
Corporate costs	(1.5)	(1.5)
EBITA multiple	6.0	7.0
Value of corporate costs (pre implementation costs)	(9.0)	(10.5)
Less implementation costs ⁽¹⁾	(0.8)	(0.8)
Value of corporate costs (post implementation costs)	(9.8)	(11.3)

Note:

1 Calliden has significant carry forward tax losses and therefore the tax offset is considered immaterial.

⁵⁵ Albeit we note that the Calliden would remain subject to APRA requirements including amongst other things, the need to retain a Board of Directors that includes independent directors.

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Other assets / (liabilities)

- 200 Calliden has a number of other non-core or surplus assets / (liabilities) that are not reflected in our valuation of the abovementioned business divisions and for which an allowance must be made.

Joint Ventures

- 201 Calliden holds a 46.5%⁵⁶ interest in QUS and a 50% interest in Famous.

QUS

- 202 QUS is an agency business specialising in the provision of residential and commercial strata insurance products. The business launched in June 2008 and was underwritten by Calliden's Insurance Division before moving to WR Berkley on 1 January 2013. AIG will assume underwriting responsibilities from 1 December 2014. The following table summarises QUS's GWP from 1 July 2010 through to 30 June 2014:

QUS – GWP								
Six months ending	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
GWP	6.6	8.9	10.3	7.6	6.1	11.0	14.8	12.7

Source: QUS.

- 203 Although we are not permitted to disclose QUS's year-by-year financial performance figures (as they are commercially sensitive), we note the following:
- (a) we have discussed the historical and forecast results, the operating environment and prospects of the business with QUS management
 - (b) GWP has grown strongly since inception, except for calendar year 2012, when Calliden imposed growth restrictions upon the company, and the six months to 30 June 2014, during which time the business consciously constrained its own growth while it focussed upon consolidating its IT systems and processes (in order to provide a solid platform for further growth). The consolidation exercise will continue throughout the six months to 31 December 2014 but thereafter GWP is expected to again increase as AIG assumes underwriting responsibilities (and provides the business with the capacity to underwrite much larger risks)
 - (c) higher density dwellings (such as apartments) have comprised an increasing proportion of new properties in recent years and are gradually accounting for a larger share of overall stock⁵⁷. In our opinion, this trend (and the increasing need for strata insurance) is likely to continue (at least in the short-to-medium term)
 - (d) Calliden's 1H14 results disclose that its share in QUS's profit after tax for the six months to 30 June 2014 and six months to 31 December 2013 were \$0.3 million and \$0.5 million respectively⁵⁸. We note however, that the results for the six months to

⁵⁶ Reduced from 47.5%, effective 1 July 2014.

⁵⁷ National Housing Supply Council 2013 State of Supply Report.

⁵⁸ Calliden's share of profit during these periods was 47.5%.



31 December 2013 include an approximate \$0.2 million one-off benefit associated with a change in accounting policy (cash to accrual)

- (e) a large proportion of GWP is generated from brokers associated with Steadfast
- (f) QUS's performance would likely be affected by the loss of certain key employees. These employees currently have equity interests in the business, which may increase dependent upon QUS's future performance. We note that we are valuing Calliden's minority interest in QUS, the transfer of which to a third party would not eliminate management's equity interest and future equity based performance incentives.

204 For valuation purposes we have adopted EBITA for QUS of \$2.2 million and an EBITA multiple range of 8.0 to 9.0 times (after having regard to the trading and transaction evidence set out above within our assessment of the Agency Division and the significant growth potential of the business).

205 Given the above, we have assessed the value of Calliden's interest in QUS as follows:

QUS – valuation of Calliden's interest ⁽¹⁾		
	Low \$m	High \$m
EBITA	2.2	2.2
EBITA multiple	8.0	9.0
Enterprise value	17.6	19.8
Net cash / (debt) ⁽²⁾	-	-
Equity value – controlling interest basis⁽³⁾	17.6	19.8
Interest held by Calliden (%) ⁽³⁾	46.0	45.0
Value of interest held by Calliden (controlling interest)	8.1	8.9
Adopted 5% discount to controlling interest ⁽⁴⁾	(0.4)	(0.4)
Assessed value of interest held by Calliden (pre-tax)	7.7	8.5
Less tax payable on capital gain ⁽⁵⁾	(0.3)	(0.3)
Value of Calliden's interest in QUS	7.4	8.1

Note:

- 1 Rounding differences may exist.
- 2 As at 30 June 2014 QUS held approximately \$0.9 million in cash. We have assumed that this cash is required for normal operational purposes and therefore not included any additional value for this cash.
- 3 Although stated as controlling interest basis, we have not considered any negative impact from the loss of key management that might arise in the context of a 100% acquisition. We have adopted this approach because we are valuing Calliden's minority interest in QUS, the transfer of which to a third party would not eliminate management's equity interest and future equity based performance incentives.
- 4 Calliden's interest is currently 46.5% (reduced from 47.5%, effective 1 July 2014). This may reduce further to 45.0% depending upon the achievement of management performance targets. We have assumed that performance would be sufficient to reduce Calliden's interest to 46.0% in the low case and 45.0% in the high case.
- 5 We have adopted a small minority interest discount to reflect the joint venture nature of the operations.
- 6 The cost base of Calliden's investment in QUS is some \$0.1 million. We have been advised by Calliden management that the carry forward tax losses held by Calliden could be applied in order to offset tax payable on 87% of the capital gain.

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- 206 We note that our assessment of the value of a 100% controlling interest in QUS is broadly consistent with the value of an indicative, non-binding offer that was made for all the equity in the business in late 2013.

Famous

- 207 Famous is a start-up agency business that provides specialist motorcycle insurance. It commenced operations in July 2014 and Calliden's Insurance Division acts as underwriter. In our opinion, the business is too early stage to warrant the capitalisation of earnings or any other earnings based valuation (such as a DCF⁵⁹). We have attributed a value of \$nil to \$0.5 million (with the higher end consistent with the cost of Calliden's investment in the joint venture to date).

Value of Calliden's interests in the Joint Ventures

- 208 Based upon the above, we have valued Calliden's interests in the Joint Ventures as follows:

Joint Ventures – valuation		
	Low \$m	High \$m
QUS	7.4	8.1
Famous	-	0.5
Value of Calliden's interests in Joint Ventures (post tax)	7.4	8.6

Tax losses

- 209 As set out in Section III, Calliden has significant carry forward tax losses of \$235.7 million (equating to a potential tax benefit of \$70.7 million). However, we note that approximately \$170.0 million of these are in dispute. Of the total potential tax benefit, Calliden has recognised some \$3.8 million on balance sheet as a deferred tax asset as at 30 June 2014⁶⁰.
- 210 For valuation purposes we have adopted a value for the tax losses of \$3.0 million to \$5.0 million. In forming this view we have considered:
- (a) the fact that a large proportion of the tax losses are currently disputed by the Australian Taxation Office (ATO)
 - (b) the extent to which we have utilised tax losses in our assessment of Calliden's interest in QUS
 - (c) the extent to which the tax losses could be utilised, based on the level of EBITA adopted for valuation purposes plus an allowance for the unallocated tax deductible amortisation associated with acquisition integration
 - (d) the time period over which any utilisation could occur

⁵⁹ As there is too little trading history to enable sufficiently robust and reliable cash flow projections to be prepared.

⁶⁰ It should be noted that deferred tax assets and liabilities (including tax benefits) are not recognised at their present value in financial statements.



- (e) the reluctance by purchasers generally to pay significant value for tax losses due to, inter alia, the uncertainty associated with their ability to utilise the tax losses (in particular following a change of control).

Franking credits

- 211 As at the date of this report, Calliden had franking credits of some \$23.1 million⁶¹. As this is significant relative to Calliden's market capitalisation we have considered the value of these franking credits when forming an opinion as to overall value.
- 212 When assessing the value of franking credits on a going concern basis⁶² it should be noted that (amongst other things) franking credits only have a value once distributed. In practice, a company's ability to distribute franking credits is constrained firstly, by its ability to fund a dividend (through for example, cash reserves and/or debt) and secondly, by its ability to frank a dividend (i.e. it must have sufficient retained earnings). In respect of an insurer (and other prudentially regulated institutions), APRA imposed capital adequacy standards also limit its ability to pay fully franked dividends.
- 213 We have discussed with management each of the above factors. Based upon those discussions we understand that, in the absence of the Scheme, it is unlikely that Calliden would be able to pay any material special dividend over and above that which the Company would ordinarily seek to pay from its annual earnings. Calliden would need to separate itself (i.e. the listed entity) from its regulated Insurance Division (e.g. sell the division), in order to significantly increase its ability to pay any material special dividend (in the short-term)⁶³. We note that such a process is subject to considerable execution risk (and may, in fact, not be achievable).
- 214 On the basis of the above, we have for valuation purposes not attributed any value to Calliden's franking account balance.

Incentive rights

- 215 As at 30 June 2014, Calliden had 15,156,900 incentive rights outstanding⁶⁴. The incentive rights are equity settled and we understand that to satisfy vesting rights, the trustee for the LTI plan acquires Calliden shares by on-market purchases. As at 30 June 2014, the trustee for the LTI plan held 3,977,697 shares on trust in order to satisfy Calliden's future STI and LTI obligations.
- 216 In the event of a change in control (including a takeover), the vesting conditions attached to the tranche at the time of the offer will cease to apply and unvested incentive rights will vest in accordance with a predetermined formula (or at the discretion of the Board). It is our understanding that it is the current intention of the Board for the incentive rights to vest in

⁶¹ After allowing for the payment of the interim (fully) franked dividend for 1H14 of 1.0 cent per share.

⁶² That is, in the absence of any capital management initiatives to distribute the franking credits.

⁶³ This is in effect what is occurring pursuant to the Scheme and gives rise to Calliden's ability to fund the Special Dividend.

⁶⁴ No further rights have been issued by Calliden post that date.

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accordance with the predetermined formula (i.e. without any discretionary variation)⁶⁵. Accordingly, when valuing 100% of the shares in Calliden, we have assumed that incentive rights will vest in accordance with the formula as applied using our valuation range as the end of period share price⁶⁶.

- 217 For valuation purposes, we have therefore allowed for the shortfall in the number of shares held on trust by Calliden in order to satisfy its obligations, being 9.4 to 10.8 million. We have assumed that Calliden would buy shares on market at our assessed valuation range in order to settle the shortfall.

Summary of other assets / (liabilities)

- 218 Based upon the above, we have assessed the value of Calliden's other assets / (liabilities) as follows:

Other assets / (liabilities)	Low \$m	High \$m
Joint Ventures	7.4	8.6
Tax losses	3.0	5.0
Franking credits	-	-
Incentive rights ⁽¹⁾	(4.3)	(5.5)
Total other assets / (liabilities)	6.1	8.1

Note:

- 1 Representing the shortfall in shares held on trust in order to meet 100% of Calliden's STI and LTI obligations (9.4 to 10.8 million) at our assessed value of a 100% controlling interest in Calliden.

Net cash / (debt)

- 219 As at 30 June 2014, Calliden had net cash of \$41.8 million. However, \$19.2 million of the net cash balance is included in our valuation of the Insurance Division. The remaining cash of \$22.6 million, other than the cash needed to fund the interim dividend (and pay the unavoidable costs associated with this transaction), is almost completely represented by cash payments received by the Agency Division from policyholders, which is effectively held on trust and will be ultimately on paid to insurers / underwriters (including both the Insurance Division⁶⁷ and other third party insurers). Accordingly, for valuation purposes, we have not treated any of the net cash balance as surplus.

Share capital outstanding

- 220 Calliden has 226.7 million fully paid ordinary shares on issue (we note that we have assumed that those shares held on trust by the trustee for the LTI plan in order to meet Calliden's STI and LTI obligations will vest to the relevant KMPs).

⁶⁵ We note that in respect of the Scheme, the Board currently intend to adopt the Scheme Consideration of 41.5 cents per share as the end period share price (i.e. the Board intend to exclude the Special Dividend portion of the Total Entitlements).

⁶⁶ Specifically, vesting percentage equals our valuation range minus the issue price, divided by issue price.

⁶⁷ We note that the amount to be on paid to the Insurance Division is captured within that division's premiums receivable balance and is therefore already reflected in our valuation of the Insurance Division.



Valuation summary

221 Given the above, the value of 100% of Calliden on a controlling interest basis is as follows:

Calliden – valuation summary			
	Paragraph	Low \$m	High \$m
Insurance Division	165	53.3	56.0
Agency Division	191	54.0	63.0
Corporate	199	(9.8)	(11.3)
Enterprise value		97.5	107.7
Other assets / (liabilities)	218	6.1	8.1
Net cash / (debt)	219	-	-
Equity value – controlling interest basis		103.6	115.8
Number of shares on issue (million)	220	226.7	226.7
Calliden value per share – controlling interest basis (cents)		45.7	51.1

222 Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover).

223 In the one month and three months prior to the announcement of the Offer, the VWAP of Calliden shares was 35.9 cents and 35.8 cents per share respectively. Adjusting these share prices for a 30% to 35% control premium would therefore result in a “theoretical” control value of 46.5 cents to 48.5 cents per share.

224 Having regard to the above we consider our valuation range is reasonable and appropriate.

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(continued)



VII Evaluation of the Scheme

- 225 In our opinion, the Scheme is fair and reasonable and in the best interests of Calliden shareholders in the absence of a superior proposal. We have formed this opinion for the following reasons.

Assessment of the Scheme

Value of Calliden

- 226 As set out in Section VI we have assessed the value of Calliden between 45.7 and 51.1 cents per share on a 100% controlling interest basis.

Value of Total Entitlements

- 227 If the Scheme is approved and implemented, Calliden shareholders will receive a total 46.5 cents per share held on the applicable record date, consisting of cash consideration from Steadfast of 41.5 cents per share and a fully franked special dividend from the Company of 5.0 cents per share⁶⁸.
- 228 Whilst we have assessed the Total Entitlements at 46.5 cents per share, we note that due to the benefit of franking credits (of 2.1 cents per share) attached to the Special Dividend, the value of the Total Entitlements to some Australian resident shareholders may be greater than 46.5 cents per share.

Fairness

- 229 Pursuant to RG 111 the Scheme is “fair” if the value of the Total Entitlements is equal to, or greater than the value of the securities the subject of the Scheme. This comparison is shown below:

Comparison of Total Entitlements to value of Calliden			
	Low	High	Mid-point
	cents per share	cents per share	cents per share
Value of Total Entitlements	46.5	46.5	46.5
Value of 100% of Calliden	45.7	51.1	48.4
Extent to which the Total Entitlements exceed (or are less than) the value of Calliden	0.8	(4.6)	(1.9)

- 230 As the value of the Total Entitlements lies within our assessed valuation range for Calliden shares on a 100% controlling interest basis, in our opinion, the Scheme is fair to Calliden shareholders when assessed based on the Guidelines set out in RG 111.

⁶⁸ We have been advised that, as at the date of this report, it is the Directors' expectation that the Special Dividend will be fully franked.



Other qualitative factors

- 231 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and reasonable” it must also be “in the best interests” of shareholders.
- 232 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of Calliden shareholders in the absence of a superior proposal.
- 233 In assessing whether the Scheme is reasonable and in the best interests of Calliden shareholders LEA has also considered, in particular:
- (a) the extent to which a control premium is being paid to Calliden shareholders
 - (b) the extent to which Calliden shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
 - (c) the listed market price of Calliden shares, both prior to and subsequent to the announcement of the proposed Scheme
 - (d) the likely market price of Calliden securities if the proposed Scheme is not approved
 - (e) the value of Calliden to an alternative offeror and the likelihood of a higher alternative offer being made for Calliden prior to the date of the Scheme meeting
 - (f) the advantages and disadvantages of the Scheme from the perspective of Calliden shareholders
 - (g) other qualitative and strategic issues associated with the Scheme.
- 234 These issues are discussed in detail below.

Extent to which a control premium is being paid

- 235 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company’s shares⁶⁹ three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium range reflects the fact that:
- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
 - (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
 - (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
 - (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

⁶⁹ After adjusting the pre-bid market prices for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover.

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- 236 We have calculated the premium implied by the Total Entitlements by reference to the market prices of Calliden shares (as traded on the ASX) for periods up to and including 26 August 2014 (being the trading day prior to the announcement of the indicative proposal from Steadfast).
- 237 We note that Calliden shareholders received an interim dividend of 1.0 cent per share on 30 September 2014 and that the share prices prior to the ex-date of 12 September 2014 (including the periods over which we have measured the premiums implied by the Total Entitlements) traded with an entitlement to this dividend.
- 238 Accordingly, to ensure the implied premium is calculated on an appropriate comparable basis we have therefore adopted a total consideration of 47.5 cents per share for implied offer premium calculation purposes, determined as follows:

Total consideration for offer premium calculations ⁽¹⁾	
	Cents
Total Entitlements	46.5
Calliden's FY14 interim dividend	1.0
Total value to Calliden shareholders ⁽²⁾	47.5

Note:

- 1 In our opinion, it is more appropriate to calculate the implied offer premium using the pre-bid market price without adjustment for the interim dividend, and compare this price with the total value received by shareholders (being the Total Entitlements and the interim dividend paid post announcement of the Scheme).
- 2 Excluding any separate benefit from franking credits.

- 239 The implied offer premium relative to Calliden share prices up to 26 August 2014 is shown below:

Implied offer premium relative to recent Calliden share prices		
	Calliden share price cents	Implied offer premium ⁽¹⁾ %
Total Entitlements (including interim dividend)	47.5	
Closing price on 26 August 2014 (last trading day prior to the announcement)	34.5	37.7
Volume weighted average price (VWAP):		
1 month to 26 August 2014	35.9	32.3
3 months to 26 August 2014	35.8	32.7



- 240 Having regard to the above, in our opinion, the Total Entitlements provide Calliden shareholders with a premium that is consistent with observed premiums generally paid in comparable circumstances. Accordingly, in our opinion, Calliden shareholders are being compensated for the fact that 100% control of Calliden will pass to Steadfast if the Scheme is approved.

Extent to which Calliden shareholders are being paid a share of synergies

- 241 If the Scheme is approved and implemented, Calliden will be delisted from the ASX resulting in the elimination of listed company costs (e.g. listing fees and share registry fees, shareholder communication costs etc) and reduced Board of Director fees⁷⁰. In addition, Calliden management are of the view that Steadfast and MHA⁷¹ are likely to also be able to generate further savings (over time) by reducing head office staff costs and merging back office operations such as finance, IT and HR, and claims handling functions within their existing operations.
- 242 Further, the Insurance Division is relatively small and incurs high reinsurance costs to keep its claim variability within acceptable limits. In addition, the Insurance Division has its largest catastrophe exposure in Victoria. This is unusual within Australian insurers which typically have their largest catastrophe exposures in Sydney (due to its size) or in Queensland (due to cyclone risks). Accordingly, the inclusion of the Insurance Division within a larger insurance business would result in significant reinsurance savings both due to diversification benefits and the less than proportion impact on catastrophe reinsurance limits required.
- 243 Synergies benefits are, in part, a reason why control premiums are paid. We note that the control premiums implied by the Total Entitlements are consistent with observed premiums generally paid in comparable circumstances. We further note that our assessed valuation range incorporates an allowance for estimated synergies (relating to public company costs, Director fees and CEO and CFO salary reductions) and that the value of the Total Entitlements falls within that range.
- 244 Given the above, it would appear that a proportion of the synergy benefits to be realised by Steadfast (and MHA) are being reflected in the Total Entitlements.

Recent share prices subsequent to the announcement of the Scheme

- 245 Shareholders should note that Calliden shares have traded on the ASX in the range of 46.5 cents to 47.0 cents per share in the period 12 September 2014 (the date Calliden went ex-interim dividend) to 30 September 2014. These share prices are consistent with the Total Entitlements and suggest that the market consensus view is that a superior offer or proposal is unlikely to emerge.

⁷⁰ Noting that as a licensed insurer the Insurance Division would be required by APRA to have independent directors on its Board.

⁷¹ Which will acquire the Insurance Division, Business Package and Commercial agency operations from Steadfast immediately following implementation of the Scheme.

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- 246 Although, Calliden shares have, on occasion, traded marginally above the value of the Total Entitlements, we note this trading may be due to the benefit of franking credits which form part of the Total Entitlements and which may result in some Australian resident shareholders obtaining value of greater than 46.5 cents per share.

Likely price of Calliden shares if the Scheme is not implemented

- 247 If the Scheme is not implemented we expect that, at least in the short-term, Calliden shares will trade at a significant discount to our valuation and the Total Entitlements due to the difference between the value of Calliden shares on a portfolio basis and their value on a 100% takeover basis.
- 248 If the Scheme is not implemented those Calliden shareholders who wish to sell their Calliden shares are therefore likely, at least in the short-term, to realise a significantly lower price for their shares than will be payable under the Scheme.

Likelihood of an alternative offer

- 249 We have been advised by the Directors of Calliden that no formal alternative offers have been received subsequent to the announcement of the Scheme on 27 August 2014.
- 250 As a condition of the Scheme, Calliden has, subject to its normal fiduciary obligations, undertaken not to solicit, initiate, invite, encourage or participate in any potential competing transaction. It should also be noted that Calliden must notify Steadfast if it receives a superior competing proposal and give Steadfast five business days to match that competing proposal.
- 251 In addition, we note that both Steadfast and Munich Re (with whom Steadfast has entered into an On-Sale Agreement) are significant strategic business partners of Calliden. Steadfast, through its network of brokers generates approximately half of the Agency Division's annual GWP, whilst Munich Re (through its subsidiary Great Lakes Australia) underwrites a significant proportion of the GWP generated by the Agency Division.
- 252 Although it is possible that an alternate offer may emerge, the factors set out above, in our opinion, diminish the likelihood of this occurring.

Summary of opinion on the Scheme

- 253 We summarise below the likely advantages and disadvantages for Calliden shareholders if the Scheme proceeds.

Advantages

- 254 The Scheme has the following benefits for Calliden shareholders:
- (a) the value of the Total Entitlements of 46.5 cents per share is above the low end of our assessed value range for Calliden shares on a 100% controlling interest basis
 - (b) the Total Entitlements represents a significant premium to the recent market prices of Calliden shares prior to the announcement of the Scheme on 27 August 2014
 - (c) furthermore, the premium is consistent with observed premiums generally paid to target company shareholders in comparable circumstances



- (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, Calliden shares are likely to trade at a significant discount to our valuation and the Total Entitlements due to the portfolio nature of individual shareholdings.

Disadvantages

- 255 Calliden shareholders should note that if the Scheme is implemented they will no longer hold an interest in Calliden. Calliden shareholders will therefore not participate in any future value created by the Company over and above that reflected in the Total Entitlements.
- 256 However, as our assessed value of Calliden shares is consistent with the Total Entitlements, in our opinion, the present value of Calliden's future potential is reflected in the Total Entitlements.

Conclusion

- 257 Given the above analysis, we consider the acquisition of Calliden shares under the Scheme is fair and reasonable and in the best interests of Calliden shareholders in the absence of a superior proposal.

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Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Scheme Booklet to be sent to Calliden shareholders in connection with the Scheme.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$95,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.



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- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

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(continued)



Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Martin Hall and Mr Nathan Toscan, who are each authorised representatives of LEA. Mr Hall and Mr Toscan have over 28 years and 10 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Directors of Calliden to accompany the Scheme Booklet to be sent to Calliden shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of Calliden shareholders.

Interests

- 4 At the date of this report, neither LEA, Mr Hall nor Mr Toscan have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with either Calliden or Steadfast prior to the preparation of this report.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Calliden agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Calliden which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Scheme Booklet.

Appendix C

Trading and transaction evidence – Insurers

Trading evidence

- 1 The following table summarises the key trading metrics of ASX listed companies operating in the general insurance sector:

Trading evidence – ASX listed insurers ⁽¹⁾											
	Year end	Market cap A\$M	Insurance multiple ⁽²⁾			PE multiple			EV / NEP ⁽³⁾		
			FY13 x	FY14 x	FY15 x	FY13 x	FY14 x	FY15 x	FY13 x	FY14 x	FY15 x
QBE	Dec	15,832	15.8	11.3	8.5	na	14.9	11.2	1.13	1.24	1.19
IAG ⁽⁴⁾	Jun	14,327	9.4	8.5	9.5	11.8	10.5	12.7	1.61	1.54	1.52
TOWER ⁽⁵⁾	Sep	316	5.8	na	na	12.7	14.6	na	1.87	na	na

Note:

- 1 As at 30 September 2014.
 - 2 Value attributed to insurance business excluding shareholder investment capital (NTA) divided by insurance profit before tax. Forecast multiples based upon analyst consensus insurance profit before tax.
 - 3 Enterprise value (excluding surplus capital) divided by NEP. Forecast multiples based on analyst consensus NEP.
 - 4 IAG's multiples for FY13 and FY14 are calculated on a pro-forma basis taking into account a full year earnings contribution from the Wesfarmers Insurance business (as per IAG's investor presentations dated 16 December 2013 and 19 August 2014). Estimated synergies are not reflected in the earnings used to calculate the earnings multiples.
 - 5 TOWER multiples are for its (core) New Zealand general insurance business only. Profit used is before impact of Canterbury earthquakes and revaluation of Australian liabilities (which are in run-off).
- na – not available.

Source: Company announcements, Bloomberg, Analyst reports and LEA analysis.

- 2 Brief descriptions of each of the above companies follow.

QBE Insurance Group

- 3 QBE is one of the world's top 20 general insurance and reinsurance companies that underwrites most major commercial and personal lines of insurance through operations in 43 countries.

Insurance Australia Group

- 4 IAG is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand and Vietnam, employing more than 15,000 people. Its businesses underwrite over \$11 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, Swann and Lumley Insurance. IAG also has an interest in general insurance joint ventures in Malaysia, India and China.

TOWER Limited

- 5 TOWER provides a comprehensive range of life and general insurance products and services to customers throughout New Zealand and the Pacific Islands Products. TOWER is listed on both the ASX and the New Zealand stock exchange.

ANNEXURE A

INDEPENDENT EXPERT'S REPORT

(continued)

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Appendix C

Transaction evidence

- 6 There have been a number of transactions in the general insurance sector in recent years where either the target was an Australian entity or the target was acquired by an Australian insurer. The multiples implied by those transactions (where financial information is available) are shown below:

Transaction evidence – general insurers					
Date ⁽¹⁾	Target	Interest acquired %	Value \$m	Insurance multiple ⁽²⁾ x	EV / NEP ⁽³⁾ x
May 14	MTA Insurance Limited	100	A\$55	8.1 (F)	1.38 (F)
Mar 14	Medical Defence Association of SA Limited ⁽⁴⁾	100	A\$60	na	1.44 (F)
Mar 14	MDA National Limited ⁽⁴⁾	100	A\$80	na	1.37 (F)
Dec 13	Wesfarmers Underwriting Business	100	A\$1,845	13.5 (H)	1.26 (H)
Nov 12	TOWER Medical Insurance Limited	100	A\$81	5.8 (F)	0.63 (F)
Dec 11	AMI Insurance (New Zealand)	100	NZ\$380	10.3 (H)	1.07 (H)
Jul 10	RACQ Insurance and RAA Insurance ⁽⁵⁾	50	A\$695	na	1.02 (H)
Apr 10	NAU Country Insurance Company	100	US\$565	3.8 (F)	0.93 (F)

Note:

- 1 Date of announcement.
- 2 Value attributed to insurance business excluding shareholder investment capital (NTA) divided by insurance profit before tax.
- 3 Enterprise value (excluding surplus capital) divided by NEP.
- 4 Based upon the value of insurance business excluding surplus capital.
- 5 The price received by Suncorp for its 50% interest in both RACQ Insurance and RAA Insurance was based on an independent valuation of the businesses. For confidentiality reasons, the earnings multiples adopted in the valuation cannot be disclosed.

na – not available. H – Historic multiple. F – Forecast multiple.

Source: Company announcements, press commentary and LEA analysis.

- 7 Brief descriptions of each of the above transaction follow.

MTA Insurance Limited

- 8 An unlisted public company which provided retail motor insurance products. Acquired by Suncorp from M.T.Q. Insurance Services Limited.

MDA National Limited and Medical Defence Association of South Australia Limited

- 9 Merger of equals between MDA National Limited and Medical Defence Association of South Australia Limited. Two mutual organisations that, via their wholly owned insurers, provided medical indemnity insurance products to members and healthcare practices in Australia.

Wesfarmers Underwriting Business

- 10 Australia and New Zealand underwriting operations that included commercial lines of business, including the Lumley and WFI brands, and a fast-growing personal lines business which was sold through the Coles Insurance affinity partnership. Acquired by IAG from Wesfarmers Limited.



Appendix C

TOWER Medical Insurance

- 11 Was New Zealand's second-largest health insurer, providing cover to approximately 169,000 people and had annual premium revenue of approximately NZ\$140 million. Acquired by ASX listed NIB Holdings Limited from ASX (and New Zealand stock exchange) listed TOWER Limited.

AMI Insurance (NZ)

- 12 At the time of acquisition, New Zealand's second largest direct personal lines insurer. Its primary business was in insuring homes, contents and motor vehicles (as well as some farms and boats). Acquired by IAG.

RACQ Insurance and RAA Insurance

- 13 RACQ Insurance (RACQ) and RAA Insurance (RAA) were joint ventures between Suncorp Group Limited (Suncorp) and the Royal Automobile Club of Queensland and the Royal Automobile Association of South Australia, respectively. Each entity provided a range of motoring, travel and other associated services to their members in their respective states (i.e. Queensland and South Australia). Suncorp sold its 50% interests to its respective joint venture partners.

NAU Country Insurance Company

- 14 At the time of acquisition, NAU Country Insurance Company was the third largest writer and manager of multi-peril crop insurance in the United States (with an estimated 11% market share). Acquired by QBE.

ANNEXURE A

INDEPENDENT EXPERT'S REPORT

(continued)



Appendix D

Trading and transaction evidence – Insurance agencies and brokers

Trading evidence

- 1 The following table summarises the key trading metrics of ASX listed companies that provide insurance broking / agency services:

Trading evidence – ASX listed insurance brokers ⁽¹⁾									
	Year end	Market cap A\$m	EV / EBITDA		EV / EBITA		PE multiple		Goodwill ⁽²⁾ / EBITA
			FY14 x	FY15 x	FY14 x	FY15 x	FY14 x	FY15 x	x
Steadfast	30 June	752	13.4	10.8	13.8	11.2	18.2	15.8	8.8
Austbrokers	30 June	611	11.8	11.9	12.3	11.2	18.1	16.2	8.7

Note:

1 As at 30 September 2014.

2 Total intangible value implied by market capitalisation divided by FY15 EBITA.

Source: Company announcements, Bloomberg and LEA analysis.

- 2 Brief descriptions of each of the above companies follow.

Steadfast

- 3 Steadfast, established in 1996, is a broker network and provider of services to 306 insurance broker businesses across Australia, New Zealand and Singapore. Steadfast's network of brokers and underwriting agencies generate annual billings of over \$5 billion in 2014. Steadfast also operates as a consolidator through its equity interests in a number of insurance broker businesses, a reinsurance broker, underwriting agencies, other complementary businesses and a joint venture in Macquarie Pacific Funding.

Austbrokers

- 4 Austbrokers is a provider of insurance broking services and the distribution of ancillary products to corporate, retail, industrial and commercial clients. The company distributes insurance products through its insurance underwriting agencies and also provides insurance and risk services. Typically, the company enters into partnerships with an insurance broker business and provides services (including IT services) to support ongoing operations.

Transaction evidence

- 5 There have been a number of transactions involving insurance broking / agency entities in recent years where either the target or the acquirer was an Australian entity. Those transactions which had a value of greater than \$10 million and which disclosed sufficient financial information to enable the calculation of implied transaction multiples are summarised in the following table:

Appendix D

Transaction evidence – insurance brokers					
Date ⁽¹⁾	Target	Acquirer	Interest acquired %	Value ⁽²⁾ \$m	EV / EBITA x
Aug 14	Ausure Group	Steadfast	72	29	7.1 (F)
Apr 14	Wesfarmers' broking & premium funding operations	Arthur J. Gallagher	100	1,160	10.9 (H)
Aug 13	RIB Group Holdings ⁽³⁾	Steadfast	90	87	10.8 (F)
Aug 13	National Credit Insurance (Brokers) ⁽³⁾	Steadfast	100	30	8.9 (F)
Aug 13	Brecknock Insurance Brokers ⁽³⁾	Steadfast	73	25	11.8 (F)
Aug 13	GWS ⁽³⁾	Steadfast	80	22	7.7 (F)
Aug 13	Mega Capital Holdings ⁽³⁾	Steadfast	80	21	7.9 (F)
Jun 13	InterRISK Australia ⁽⁴⁾	Austbrokers	77	20	9.0 (F)
Jul 12	Adroit Holdings ⁽⁴⁾	Austbrokers	19	24	9.7 (F)

Note:

1 Date of announcement.

2 Implied value of 100% if transaction does not directly involve a 100% transaction. Transactions with a value of less than \$10 million have been excluded from the table.

3 Based upon annualised results for the period 7 August 2013 to 30 June 2014.

4 Based upon profit before tax. Interest and amortisation expenses not disclosed.

H – Historic multiple. F – Forecast multiple.

Source: Company announcements, press commentary and LEA analysis.

- 6 In addition to the above individual transactions, Steadfast in its prospectus document dated 11 July 2013, stated that it paid an average forecast EBITA multiple of less than 7.0 times⁷² for 64 insurance brokers, underwriting agencies and ancillary businesses, that it acquired immediately prior to the company listing on the ASX⁷³.
- 7 Brief descriptions of each of the above transactions follow.

Ausure Group

- 8 On 1 August 2014, Steadfast announced that it would acquire a 72% interest in Ausure Group (part of the Steadfast broker network), a network of full service insurance brokers in some 150 locations across Australia with access to major insurance markets, including specialist agencies.

Wesfarmers' insurance broking and premium funding operations

- 9 On 7 April 2014, Arthur J. Gallagher & Co. announced that it would acquire Wesfarmers' insurance broking and premium funding operations comprising of OAMPS Insurance Brokers in Australia, OAMPS UK and Crombie Lockwood in New Zealand. The premium funding operations in Australia and New Zealand comprise of Lumley Finance and Monument Premium Funding.

⁷² During Steadfast's FY14 results conference call Mr Stephen Humphrys, CFO, confirmed that the multiple paid was "on the lower side of the average".

⁷³ The 64 businesses included RIB Group Holdings, NCIB, Brecknock Insurance Brokers, GWS and Mega Capital Holdings set out in the table at paragraph 5. The acquisitions of equity interests acquired ranged from 25% to 100% and the consideration paid for the individual investments ranged from \$0.6 million to \$78.2 million.

ANNEXURE A

INDEPENDENT EXPERT'S REPORT

(continued)



Appendix D

RIB Group Holdings

- 10 On 7 August 2013, Steadfast acquired an 80% interest in the Regional Insurance Brokers Group Holdings, an insurance broker based in Queensland providing commercial, liability and personal insurance products.

National Credit Insurance (Brokers)

- 11 On 7 August 2013, Steadfast acquired National Credit Insurance (Brokers) (NCIB), an insurance broker providing specialist trade credit based in South Australia. NCIB is a member of the International Credit Brokers Alliance, a network of trade credit insurance brokers in some 27 countries.

Brecknock Insurance Brokers

- 12 On 7 August 2013, Steadfast acquired a 73% interest in Brecknock Insurance Brokers, an insurance broker in South Australia with operations in business insurance, personal insurance and life insurance.

GWS

- 13 On 7 August 2013, Steadfast acquired an 80% interest in GWS, an insurance broker based in Victoria offering alpine, postal, information technology, golfing, motor dealer and travel insurance products. GWS is also the official insurance broker to members of the Australian Manufacturing Technology Institute.

Mega Capital

- 14 On 7 August 2013, Steadfast acquired an 80% interest in Mega Capital, an insurance broker in professional risks insurance, including professional indemnity, directors and officers liability and warranty and indemnity insurance based in Victoria.

InterRISK Australia

- 15 On 13 June 2013, Austbrokers announced that it would acquire a 77% interest in InterRISK Australia, a corporate insurance broking firm with offices in Sydney, Melbourne and Brisbane providing services including general broking, as well as professional and financial risk management.

Adroit Holdings

- 16 On 1 July 2012, Austbrokers acquired an additional 19% interest in Adroit Holdings, bringing the total interest to 69%. Adroit Holdings is an insurance broker based in Victoria providing access to workplace injury and claims management specialists and risk insurance.

Appendix E

Glossary

Term	Meaning
ACCC	Australian Competition and Consumer Commission
ACE Insurance	ACE Insurance Ltd
ADIs	Authorised Deposit-taking Institutions
AFS	Australian Financial Services
Agency Division	Calliden's Agency Services division which markets and distributes a range of insurance products for both the Insurance Division and third party underwriters for which it receives commission income
Agreement	Scheme Implementation Deed dated 27 August 2014
AIG	American International Group Inc
APRA	Australian Prudential Regulation Authority
Arena Underwriting	Arena Underwriting Pty Ltd
ARGIS	ARGIS Ltd
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AU	Australian Unity
Calliden or the Company	Calliden Group Limited
CAM	Capital Adequacy Multiple
CAS	Calliden Agency Services Limited
CIL	Calliden Insurance Limited
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Corporations Regulations	<i>Corporations Regulations 2001</i>
CSA	Claims Services Australia Pty Ltd
CTP	Compulsory third party
Dawes	Dawes Underwriting Australia Pty Ltd
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
Famous	Famous Insurance Agency Pty Ltd
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
Great Lakes Australia	Great Lakes Reinsurance (UK) Plc
GWP	Gross written premium
IAG	Insurance Australia Group Limited
IER	Independent expert's report
Insurance Division	Calliden's Insurance division which underwrites insurance policies in return for premiums
IUA	IUA Pty Ltd
KMP	Key management personnel
LEA	LonerGAN Edwards & Associates Limited
LTI	Long-term incentive
MHA	Munich Holdings of Australasia Pty Limited
NEP	Net earned premium
NPV	Net present value
NTA	Net tangible assets

ANNEXURE A

INDEPENDENT EXPERT'S REPORT

(continued)

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Appendix E

Term	Meaning
OAMPS	OAMPS Insurance Brokers Limited
On-Sale Agreement	Agreement between Steadfast and MHA (dated 27 August 2014) relating to the on-sale by Steadfast to MHA of Calliden's Insurance Division and Business Package and Commercial agency operations immediately following implementation of the Scheme
PCA	Prescribed Capital Amount
PCR	Prescribed Capital Requirement
PE	Price earnings
QBE	QBE Insurance Group Limited
QUS	QUS Pty Ltd
RBA	Reserve Bank of Australia
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
Scheme	Scheme of arrangement pursuant to which (as per the Scheme Implementation Deed dated 27 August 2014) Steadfast will acquire 100% of the issued shares in Calliden
Scheme Consideration	Cash consideration of 41.5 cents per share to be paid by Steadfast as a component of the Total Entitlements to be received by Calliden shareholders pursuant to the Scheme
SiCorp	NSW Self Insurance Corporation
SMEs	Small and medium enterprises
Special Dividend	Fully franked special dividend of 5.0 cents per share to be paid by Calliden as a component of the Total Entitlements to be received by Calliden shareholders pursuant to the Scheme
Steadfast	Steadfast Group Limited
STI	Short-term incentive
Suncorp	Suncorp Group Limited
Total Entitlements	46.5 cents per Calliden share held on the applicable record date, consisting of Scheme Consideration of 41.5 cents per share and a Special Dividend of 5.0 cents per share
UAC	Underwriting Agencies Council
VWAP	Volume weighted average price
WANOS	Weighted average number of shares outstanding
WR Berkley	W.R. Berkley Insurance (Europe) Ltd

ANNEXURE B
SCHEME IMPLEMENTATION DEED

KING & WOOD
MALLESONS

Scheme Implementation Deed

Dated

Steadfast Group Ltd (ACN 073 659 677) ("**Acquirer**")

Calliden Group Limited (ACN 061 215 601) ("**Target**")

King & Wood Mallesons

Level 61
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia
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DX 113 Sydney
www.kwm.com
02-5507-3076

ANNEXURE B

SCHEME IMPLEMENTATION DEED

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ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

Scheme Implementation Deed

Details

Parties	Acquirer and Target	
Acquirer	Name	Steadfast Group Ltd
	ACN	073 659 677
	Incorporated in	New South Wales
	Address	Level 3, 97-99 Bathurst Street Sydney NSW 2000 Australia
	Telephone	+61 2 9495 6500
	Fax	+61 2 9495 6565
	Attention	Company Secretary
Target	Name	Calliden Group Limited
	ACN	061 215 601
	Incorporated in	New South Wales
	Address	Level 7, 100 Arthur Street North Sydney NSW 2060 Australia
	Telephone	+61 2 9551 1111
	Fax	+61 2 9551 1155
	Attention	Managing Director
Target Shares	226,683,914 fully paid ordinary shares being all of the Target's ordinary shares listed on ASX as at the Record Date.	
Recitals	A	The Target and the Acquirer have agreed to propose a members' scheme of arrangement under Part 5.1 of the Corporations Act, under which the Acquirer (or a member of the Acquirer Group) will acquire the Target Shares.
	B	The Target and the Acquirer have agreed to implement the Scheme on the terms and conditions of this deed.
	C	The Acquirer and MHA have entered into a separate agreement for the sale and purchase of the Target On-Sale Business pursuant to the Share and Business Acquisition Agreement. It is fundamental that completion of the On-Sale occurs on the Implementation Date, immediately following implementation of the Scheme.

Governing law	New South Wales, Australia
Date of deed	See Signing page

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

Scheme Implementation Deed

General terms

1 Definitions and interpretation

1.1 Definitions

These meanings apply unless the contrary intention appears.

ACCC means the Australian Competition and Consumer Commission.

Accounting Standards means:

- (a) accounting standards as that term is defined in the Corporations Act;
- (b) the requirements of the Corporations Act in relation to the preparation and content of financial reports; and
- (c) if and to the extent that any matter is not covered by the accounting standards or requirements referred to in paragraphs (a) or (b), other relevant accounting standards and generally accepted accounting principles applied from time to time in Australia for a business similar to the Target.

Acquirer has the meaning given in the Details.

Acquirer Board means the board of directors of the Acquirer as constituted from time to time.

Acquirer Confidential Information means all confidential, non-public or proprietary information regardless of how the information is stored or delivered, exchanged between the parties to this deed and the MHA Group, respectively, before, on, or after the date of this deed relating to the business, ownership, intentions or other affairs of the Acquirer Group and/or the MHA Group.

Acquirer Group means the Acquirer and its Subsidiaries, including without limitation Steadfast Underwriting Agencies Pty Ltd ACN 162 390 169.

Acquirer Indemnified Parties means the Acquirer, MHA, each of their respective officers, employees, Related Bodies Corporate and the officers and employees of each of their respective Related Bodies Corporate.

Acquirer Information means the information regarding the Acquirer Group provided by the Acquirer to the Target for inclusion in the Scheme Booklet, being information:

- (a) about the Acquirer Group, its business, its interests and dealings in Target Shares, its intentions for the Target and Target's employees, and funding arrangements; and
- (b) required to be included in the Scheme Booklet under the Corporations Act, Corporations Regulations, the Listing Rules or ASIC Regulatory Guide 60.

For the avoidance of doubt, the Acquirer Information does not include information about the Target Group except to the extent it relates to any statement of the Acquirer's intention relating to the Target Group following the Effective Date,

provided the Acquirer has consented in writing to the inclusion of such statements in the Scheme Booklet.

Action means an action, dispute, cause of action, claim, demand, investigation, inquiry, prosecution, litigation, proceeding, suit, arbitration, mediation or dispute resolution.

Additional Dividend means a franked dividend of five cents per Target Share which the Target is permitted to pay on the Implementation Date immediately prior to implementation of the Scheme.

Adjusted Target Group Consolidated NPBT means the NPBT of the Target Group excluding:

- (a) the NPBT of the Insurance Operations;
- (b) the Sliding Scale Adjustment; and
- (c) Transaction Costs.

APRA means the Australian Prudential Regulation Authority.

ASIC means the Australian Securities & Investments Commission.

Associate has the meaning given to it in section 12 of the Corporations Act, as if section 12(1) of the Corporations Act included a reference to this deed and on the basis that the Target is a 'designated body'.

ASX means ASX Limited (ABN 98 008 624 691) or the Australian Securities Exchange, as appropriate.

Australian Treasurer means the current holder of the office of Treasurer of the Commonwealth of Australia.

Authorised Officer means, in respect of a party, a director or secretary of the party or any other person appointed by a party to act as an Authorised Officer under this deed.

Benefit Plans means each severance, incentive, bonus, retention, redundancy, change in control, retirement, long service leave, vacation or paid-time-off, benefit plan, policy, program, agreement or arrangement that is maintained, sponsored by or contributed to by the Target or its Subsidiaries or with respect to which the Target or its Subsidiaries have any liability (if any), including the 2012 long-term incentive scheme and 2014 long-term incentive and short-term incentive schemes.

Business Day means a day:

- (a) that is a business day as defined in the Listing Rules;
- (b) that is not a public holiday in Sydney, Australia; and
- (c) on which banks are open for general banking business in Sydney, Australia.

Business Pack and Middle Market Agencies Businesses means the Target Group's insurance agency businesses known as Calliden Business Package, General and Products Liability and Industrial and Special Risks (other than those known as Farmpack) as specified in the Agency and Claims Services Agreement between GLA and CAS dated 17 December 2013, as amended from time to time.

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

CAS means Calliden Agency Services Limited ACN 096 726 895.

CIL means Calliden Insurance Limited ACN 004 125 268.

Claim means any debt, cause of action, Liability, claim, proceeding, suit or demand of any nature howsoever arising and whether present or future, fixed or unascertained, actual or contingent, whether at law, in equity, under statute or otherwise.

Competing Transaction means a transaction which, if completed, would mean a person (other than the Acquirer or its Related Bodies Corporate or MHA Group) would:

- (a) directly or indirectly, acquire an interest or Relevant Interest in or become the holder of:
 - (i) 15.1% or more of the Target Shares;
 - (ii) any shares issued in the capital of CIL or CAS, or held by the Target in QUS, except, in respect of QUS, under an employee share or bonus plan; or
 - (iii) more than 50% of the shares in any of the Target's Subsidiaries,
- (iv) including by way of takeover bid, scheme of arrangement, capital reduction, reconstruction, sale of assets, sale of shares or joint venture;
- (b) acquire control of the Target, CIL, CAS or QUS, within the meaning of section 50AA of the Corporations Act;
- (c) directly or indirectly acquire the Target On-Sale Business or any significant part of it or the Target Agency Business or any significant part of it;
- (d) otherwise acquire or merge (including by a reverse takeover bid, joint venture or dual listed company structure) with the Target, CIL, CAS or QUS; or
- (e) enter into any agreement, arrangement or understanding requiring the Target to abandon, or otherwise fail to proceed with, the Transaction.

Conditions Precedent means the conditions precedent set out in Schedule 2.

Confidentiality Agreement means the confidentiality agreement between the Target, the Acquirer and Munich Holdings of Australasia Pty Limited ACN 000 159 651 dated 6 June 2014, as varied on 23 July 2014.

Confidential Information means the Acquirer Confidential Information or the Target Confidential Information.

Controller has the meaning it has in the Corporations Act.

Corporations Act means the Corporations Act 2001 (Cwlth).

Corporations Regulations means the Corporations Regulations 2001 (Cwlth).

Court means the Federal Court of Australia (Sydney registry), or such other court of competent jurisdiction under the Corporations Act agreed in writing by the parties.

Cut-Off Data File means the data file on compact discs or other electronic format from Ansarada containing the contents of the Data Room.

Data Room means the electronic data room maintained by Ansarada in connection with the Transaction, an index of which as at 26 August 2014 has been initialled for identification by the parties upon execution of this deed, including written responses to requests for further information in the on-line data room.

DDR means the reference number of the relevant document in the Data Room.

Deed Poll means a deed poll substantially in the form of Annexure B to this deed.

Details means the section of this deed headed "Details".

Due Diligence Materials means all documents and other information that were at any time during the period ending on 26 August 2014 contained in the Data Room, including all written answers given to questions submitted by either the Acquirer Group or Munich Re and any of its Subsidiaries prior to the date of this deed in connection with transactions contemplated by this deed and the Share and Business Acquisition Agreement, to the extent those written answers were at any time during the period ending on 26 August 2014 contained in the Data Room.

Effective, when used in relation to the Scheme, means the coming into effect, pursuant to 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, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date in relation to the Scheme means the date on which the Scheme becomes Effective.

Encumbrance means any:

- (a) 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 (2) of the Personal Property Securities Act 2009 (Cwth); or
- (b) right, interest or arrangement which has the effect of giving another person a preference, priority or advantage over creditors including any right of set-off; or
- (c) right that a person (other than the owner) has to remove something from land (known as a profit à prendre), easement, public right of way, restrictive or positive covenant, lease, or licence to use or occupy; or
- (d) third party right or interest or any right arising as a consequence of the enforcement of a judgment,

or any agreement to create any of them or allow them to exist.

End Date means the date which is six months from the date of this deed or such other date as is agreed by the Acquirer and the Target.

Excluded Information means Confidential Information which:

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SCHEME IMPLEMENTATION DEED

(continued)

- (a) is in or becomes part of the public domain other than through breach of this deed or an obligation of confidence owed to the party or entity providing the Confidential Information;
- (b) the recipient of the Confidential Information can prove by contemporaneous written documentation or otherwise was already known to it at the time of disclosure by the party or entity providing the Confidential Information (unless such knowledge arose from disclosure of information in breach of an obligation of confidentiality); or
- (c) the recipient of the Confidential Information acquired from a source other than the party providing the Confidential Information or any Related Body Corporate or Representative of the party or entity providing the Confidential Information where such source is entitled to disclose it (for the avoidance of doubt, this does not include any Acquirer Confidential Information supplied by either the Acquirer Group or MHA Group, to the Target, concerning the MHA Group).

Exclusivity Period means the period from and including the date of this deed to the earlier of:

- (a) the termination of this deed in accordance with its terms; and
- (b) the End Date.

First Court Date means the first day on which an application made to the Court, in accordance with item 8 of Schedule 4, for orders under section 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme is heard.

GLA means Great Lakes Reinsurance (UK) PLC (trading as Great Lakes Australia ARBN 127 740 532).

Implementation Date means:

- (a) the fifth Business Day following the Record Date; or
- (b) such other date as is agreed by the Acquirer and the Target.

Incoming Directors means each person nominated in writing by the Acquirer to the Target prior to the Second Court Date to be appointed to the Target Board.

Independent Expert means the person appointed by the Target in accordance with clause 5.3.

Independent Expert's Report means the report prepared by the Independent Expert stating whether, in the Independent Expert's opinion, the Scheme is in the best interest of the Target Shareholders.

A person is **Insolvent** if:

- (a) it is (or states that it is) an insolvent under administration or insolvent (each as defined in the Corporations Act); or
- (b) it is in liquidation, in provisional liquidation, under administration or wound up or has had a Controller appointed to any part of its property; or
- (c) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute or dissolved (in

each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved by the other parties to this deed); or

- (d) an application or order has been made (and in the case of an application, it is not stayed, withdrawn or dismissed within 30 days), resolution passed, proposal put forward, or any other action taken, in each case in connection with that person, which is preparatory to or could result in any of (a), (b) or (c) above; or
- (e) it is taken (under section 459F(1) of the Corporations Act) to have failed to comply with a statutory demand; or
- (f) it is the subject of an event described in section 459C(2)(b) or section 585 of the Corporations Act (or it makes a statement from which another party to this deed reasonably deduces it is so subject); or
- (g) it is otherwise unable to pay its debts when they fall due; or
- (h) something having a substantially similar effect to (a) to (g) happens in connection with that person under the law of any jurisdiction.

Insurance Operations means the insurance underwriting activities undertaken by CIL as an insurer.

Interim Dividend means a fully franked dividend of one cent per Target Share which the Target is permitted to pay prior to implementation of the Scheme, in relation to the period up to 30 June 2014.

Liability means any liability or obligation (whether actual, contingent or prospective), including for any Losses irrespective of when the acts, events or things giving rise to the liability occurred.

LTI Costs means the costs incurred, expensed or provisioned that will be accounted for upon implementation of the Scheme by the Target in relation to the Transaction in connection with the full and final settlement of the 2012 long- term incentive scheme and 2014 long- term incentive and short- term incentive schemes.

Listing Rules means the Listing Rules of ASX.

Losses means all Claims, demands, damages, losses, costs, expenses and liabilities.

Material Contract means a contract, deed or commitment to which any Target Group entity is party and which is material to the Target On-Sale Business, the Target Agency Business or the business of the Target Group taken as a whole (whether including or excluding the Target On-Sale Business or the Target Agency Business).

MHA means Munich Holdings of Australasia Pty Limited (ACN 000 159 651).

MHA Group means MHA and/or any of its Subsidiaries, together with GLA.

MHA Group Information means the information regarding the MHA Group provided by MHA to the Target for inclusion in the Scheme Booklet, being information:

- (a) about the MHA Group, its business, its interests and dealings in Target Shares and its intentions for the Target On-Sale Business; and

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SCHEME IMPLEMENTATION DEED

(continued)

- (b) required to be included in the Scheme Booklet under the Corporations Act, Corporations Regulations, the Listing Rules or ASIC Regulatory Guide 60.

For the avoidance of doubt, the MHA Group Information does not include information about the Target Group except to the extent it relates to any statements of MHA's intentions relating to the Target Group following the Effective Date, provided MHA has consented in writing to the inclusion of such statements in the Scheme Booklet.

Munich Re means Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft, incorporated in Munich, Germany.

NPBT means net profit before tax.

NTA means net tangible assets, being net assets minus intangible assets (including, but not limited to, goodwill and deferred tax benefits).

Outgoing Directors means each person nominated in writing by the Acquirer to the Target prior to the Second Court Date as being required to resign from the Target Board.

Permitted Dividends means the Additional Dividend and the Interim Dividend.

QUS means QUS Pty Ltd ACN 122 665 310.

Record Date means 7.00pm on the fifth Business Day following the Effective Date or such other date (after the Effective Date) as the Target and the Acquirer agree.

Register means the register of members of the Target maintained by or on behalf of the Target in accordance with section 168(1) of the Corporations Act and **Registry** has a corresponding meaning.

Regulator's Draft means the draft of the Scheme Booklet which is provided to ASIC for approval pursuant to section 411(2) of the Corporations Act.

Regulatory Authority includes:

- (a) ACCC;
- (b) APRA;
- (c) ASX;
- (d) ASIC;
- (e) the Australian Treasurer;
- (f) a government or governmental, semi-governmental or judicial entity or authority;
- (g) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (h) any regulatory organisation established under statute.

Regulatory Review Period means the period from the date on which the Regulator's Draft is submitted to ASIC to the date on which ASIC confirms that it does not intend to make any submissions at the Court hearing on the First Court Date or otherwise object to the Scheme.

Related Body Corporate has the meaning it has in the Corporations Act.

Relevant Interest has the same meaning as given by sections 608 and 609 of the Corporations Act.

Representative means, in relation to a party or entity:

- (a) a Related Body Corporate;
- (b) a director, officer or employee of the party or any of the party's Related Bodies Corporate; or
- (c) an adviser to the party or any of the party's Related Bodies Corporate, where an "adviser" means, in relation to an entity, a financier, financial adviser, corporate adviser, legal adviser, or technical or other expert adviser or consultant who provides advisory services in a professional capacity and who has been engaged by that entity.

Rights means all accretions, rights or benefits of whatever kind attaching to or arising from the Target Shares directly or indirectly after the date of this deed, including all dividends or other distributions and all rights to receive any dividends or other distributions, or to receive or subscribe for shares or other securities, which are declared, paid or made by the Target or a Subsidiary of the Target, but excludes the Permitted Dividends.

Scheme means the scheme of arrangement between the Target and Scheme Participants under which all the Scheme Shares will be transferred to the Acquirer under Part 5.1 of the Corporations Act substantially in the form of Annexure A together with any amendment or modification made pursuant to section 411(6) of the Corporations Act.

Scheme Booklet means, in respect of the Scheme, the information booklet to be approved by the Court and despatched to the Target Shareholders which must:

- (a) include the Scheme, the Deed Poll, the Independent Expert's Report, an explanatory statement complying with the requirements of the Corporations Act, notices of the Scheme Meeting and proxy forms; and
- (b) comply with the Corporations Act, Corporations Regulations, ASIC Regulatory Guide 60 and the Listing Rules.

Scheme Consideration means a cash payment of \$0.4150 for each Scheme Share less the amount of any dividend or distribution declared, or determined to be payable, or paid, by the Target on or after the date of this deed (for avoidance of doubt, other than the Permitted Dividends) in accordance with clause 8.3(j) and otherwise in accordance with the terms of this deed and the terms of the Scheme.

Scheme Meeting means the meeting to be convened by the Court at which the Target Shareholders will vote on the Scheme.

Scheme Participant means each person who is a Target Shareholder at the Record Date.

Scheme Resolution means the resolution to approve the Scheme.

Scheme Shares means all Target Shares held by Scheme Participants as at the Record Date and for the avoidance of doubt includes any Target Shares issued on or before the Record Date.

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(continued)

Second Court Date means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

Share and Business Acquisition Agreement means an agreement to be entered into on or about the date of this deed under which the Acquirer agrees to procure the sale and transfer of the Target On-Sale Business (on the Implementation Date immediately after completion of the purchase of the Target Shares under the Scheme) to an entity or entities nominated by MHA and includes any related agreements.

Sliding Scale Adjustment means any negative adjustment to the commissions earned by the Target Group as a result of movements of portfolio loss ratios.

Specified Events means an event, occurrence or matter that:

- (a) occurs or fails to occur on or after the date of this deed;
- (b) occurs or fails to occur before the date of this deed but is disclosed to the Acquirer or only announced or publicly disclosed after the date of this deed; or
- (c) will or is highly likely to occur or fail to occur on or after the date of this deed and which has not either been fairly disclosed in the Due Diligence Materials or publicly disclosed to the ASX prior to the date of this deed,

and includes a change in law, regulation or regulatory policy by any government, government agency or regulatory authority (at state, territory or Commonwealth level).

Subsidiaries has the meaning it has in the Corporations Act.

Superior Proposal means a bona fide Competing Transaction which the Target Board, acting reasonably and in good faith, and after receiving written advice from its legal and financial advisers, determines:

- (a) is reasonably capable of being completed in a timely basis taking into account all aspects of the Competing Transaction; and
- (b) is more favourable to the Target Shareholders than the Scheme, in the opinion of the Target Directors, taking into account all terms and conditions of the Competing Transaction and the identity of the other parties to the Competing Transaction.

SVU Project Plan means the SVU project plan as described in the SVU Project PID in the Data Room (DDR 19.05.01).

Target has the meaning given in the Details.

Target Agency Business means:

- (a) all share capital and the business of CAS; and
- (b) the Target agency businesses (except to the extent they are part of the Target On-Sale Business).

Target Board means the board of directors of the Target as constituted from time to time.

Target Confidential Information means all confidential, non-public or proprietary information regardless of how the information is stored or delivered,

exchanged between the parties before, on or after the date of this deed relating to the business, technology or other affairs of the Target Group.

Target Director means a director on the Target Board.

Target Group means the Target and its Subsidiaries.

Target Group Director means a member of the board of a company which is a member of the Target Group.

Target Indemnified Parties means the Target and each of their respective officers and employees and Related Bodies Corporate and the officers and employees of each of their Related Bodies Corporate.

Target Information means all information contained in the Scheme Booklet other than the Acquirer Information, the MHA Group Information and the Independent Expert's Report.

Target On-Sale Business means:

- (a) all share capital of CIL as well as associated infrastructure and employees (subject to the relevant employees agreeing to enter into employment agreements with MHA or a Related Body Corporate of MHA or an entity nominated by MHA); and
- (b) the Business Pack and Middle Market Agencies Businesses as well as associated infrastructure and employees (subject to the relevant employees agreeing to enter into new employment agreements with MHA or a Related Body Corporate of MHA or an entity nominated by MHA).

Target Material Adverse Change means a Specified Event which individually, or when aggregated with other Specified Events of a similar kind or category, has resulted in:

- (a) the Target Group consolidated NTA being less than:
 - (i) \$39.95 million, less
 - (ii) any Additional Dividends or other distributions declared, or determined to be payable, or paid, by the Target on or after the date of this deed (but for the avoidance of doubt this does not include the Interim Dividend); or
- (b) the Adjusted Target Group Consolidated NPBT from 1 January 2014 to 30 November 2014 being less than \$3.30 million,

(in each case, for paragraphs (a) and (b), calculated on the basis of the Target's most recent management accounts, and other data available to management using the same significant accounting policies as applied in the audited financial accounts for the year ended 31 December 2013 with the exception that cost allocation will be in accordance with the 2014 cost allocation methodology fairly disclosed in the Due Diligence Materials, and the same actuarial principles (including reserving) as applied in the reviewed interim financial accounts for the half-year ended 30 June 2014,

but does not include any matter, event, circumstance or change:

- (c) fairly disclosed in the Due Diligence Materials, or that is reasonably foreseeable to arise from the disclosures in the Due Diligence Materials prior to the date of this deed;
- (d) occurring as a result of any matter, event or circumstance required by this deed, the Scheme or the transactions contemplated by them

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SCHEME IMPLEMENTATION DEED

(continued)

(including any reasonable costs incurred as a result of implementing the Scheme);

- (e) occurring as a result of fluctuations to the working capital of the Target Group in the ordinary course of business;
- (f) resulting from changes in the general economic conditions of the Target's industry or laws in any of the jurisdictions in which the Target operates;
- (g) any change in taxation, interest rates generally or general economic conditions;
- (h) as a result of a declaration or determination of the Permitted Dividends;
- (i) that occurs with the written consent of the Acquirer or to which the Acquirer and MHA have not objected within five Business Days of the Acquirer and MHA being notified and consulted on the matter, event, circumstance or change; or
- (j) resulting from changes in generally accepted accounting principles or the interpretation of them by any Regulatory Authority,

provided that, only for the purposes of paragraphs (c) and (d) and no other purpose, any Transaction Costs in excess of \$2,000,000 or LTI Costs in excess of \$3,400,000 are not to be taken to have been fairly disclosed or reasonably foreseeable or reasonable for the purposes of those paragraphs.

Target Prescribed Event means, except to the extent contemplated by this deed or the Scheme, any of the events listed in Schedule 1 provided that a Target Prescribed Event will not occur where the Target has first notified to and consulted with the Acquirer and MHA in relation to the event and the Acquirer and MHA have approved in writing the proposed event or have not objected to the proposed event within five Business Days of being so notified and consulted.

Target Share means an issued fully paid ordinary share in the capital of the Target (the aggregate number of which as at the date of this deed is set out in the Details), together with all Rights attached to that share.

Target Shareholder means each person registered in the Register as a holder of Target Shares.

Timetable means the timetable set out in Schedule 3, subject to any amendments as the Acquirer and Target may agree in writing in accordance with clause 5.1(b) and provided that, at the time of development of the Scheme Booklet, the parties will negotiate in good faith a more detailed timetable which must be as expeditious as possible.

Transaction means the acquisition of the Target by the Acquirer through the implementation of the Scheme and other transactions contemplated by this deed.

Transaction Costs means the costs incurred, expensed, provisioned or that will be incurred upon implementation of the Scheme by the Target (excluding the LTI Costs) in relation to the Transaction, including the expenses incurred with Hall & Wilcox, the Independent Expert and Longreach Pty Ltd as well as with barristers and printers, other than costs:

- (a) in relation to compliance with clauses 3.8, 10.9 and 13 of this deed; or
- (b) relating to any tax ruling, any objection by or negotiations with any Regulatory Authority or failure by the Court to:
 - (i) convene the Scheme meeting on the First Court Date or

- (ii) approve the Scheme on the Second Court Date; or
- (c) costs attributable to the default, failure, delay or lack of reasonable co-operation by the Acquirer or their advisers;
- (d) incurred by the Target with the prior written consent of the Acquirer that such costs should fall outside the definition of Transaction Costs, such consent not to be unreasonably withheld or delayed.

Transaction Implementation Working Group means a working group made up of:

- (a) management of each of the Target, Acquirer and MHA Group;
- (b) representatives from each of the financial and legal advisers of the Target, Acquirer and MHA Group; and
- (c) such other persons as the parties may agree in writing from time to time.

Trust Account means the trust account referred to in clause 4.5(a).

1.2 References to certain general terms

Unless the contrary intention appears, a reference in this deed to:

- (a) (variations or replacement) a document (including this deed) includes any variation or replacement of it;
- (b) (clauses, annexures and schedules) a clause, annexure or Schedule is a reference to a clause in or annexure or Schedule to this deed;
- (c) (reference to statutes) a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (d) (law) law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- (e) (singular includes plural) the singular includes the plural and vice versa;
- (f) (person) the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Regulatory Authority;
- (g) (executors, administrators, successors) a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (h) (reference to a group of persons) a group of persons or things is a reference to any two or more of them jointly and to each of them individually;
- (i) (dollars) Australian dollars, dollars, A\$ or \$ is a reference to the lawful currency of Australia;
- (j) (calculation of time) a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;

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(continued)

- (k) (reference to a day) a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (l) (accounting terms) an accounting term is a reference to that term as it is used in Accounting Standards;
- (m) (meaning not limited) the words "include", "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- (n) (time of day) time is a reference to Sydney, New South Wales time;
- (o) (ordinary course of business) ordinary course of business is a reference to the ordinary course of business conducted by the Target Group, mainly as an insurer and underwriting agency and excludes:
 - (i) the sourcing of new or replacement underwriters (other than CIL);
 - (ii) the sale and purchase of underwriting agencies; and
 - (iii) the sale and purchase of any other businesses.

1.3 Next day

If an act under this deed to be done by a party on or by a given day is done after 5.30pm on that day, it is taken to be done on the next day.

1.4 Next Business Day

If an event must occur on a stipulated day which is not a Business Day then the stipulated day will be taken to be the next Business Day.

1.5 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this deed.

1.6 MHA

The parties acknowledge that, in carrying out its obligations or exercising any of its discretions under this deed, the Acquirer may have regard to the interests of the MHA Group.

2 Agreement to propose Scheme and implement the Transaction

2.1 Target to propose Scheme

The Target agrees to propose the Scheme on and subject to the terms and conditions of this deed.

2.2 Acquirer to assist with Scheme

The Acquirer agrees to assist the Target to propose the Scheme on and subject to the terms and conditions of this deed.

2.3 Agreement to implement the Transaction

The parties agree to implement the Transaction on the terms and conditions of this deed.

3 Conditions Precedent

3.1 Conditions Precedent

Subject to this clause 3, the Scheme will not become Effective and the obligations of the Acquirer under clause 4.3 ("Scheme Consideration") are not binding unless each of the Conditions Precedent contained in Schedule 2 are satisfied or waived to the extent and in the manner set out in clauses 3.2 ("Benefit of certain Conditions Precedent") and 3.3 ("Waiver of Conditions Precedent").

3.2 Benefit of certain Conditions Precedent

A Condition Precedent may only be waived in writing by a party entitled to the benefit of that Condition Precedent as noted in the table set out in Schedule 2 and will be effective only to the extent specifically set out in that waiver.

A party entitled to waive the breach or non-fulfilment of a Condition Precedent under this clause 3.2 may do so in its absolute discretion.

3.3 Waiver of Conditions Precedent

If the Target or the Acquirer waives the breach or non-fulfilment of a Condition Precedent in accordance with this clause, then:

- (a) subject to subclause 3.3(b), that waiver precludes that party from suing the other parties for any breach of this deed arising as a result of the breach or non-fulfilment of that Condition Precedent or arising from the same event which gave rise to the breach or non-fulfilment of that Condition Precedent; but
- (b) if the waiver of the Condition Precedent is itself conditional and the other party or parties:
 - (i) accept the condition, then the terms of that condition apply notwithstanding any inconsistency with subclause 3.3(a); or
 - (ii) do not accept the condition, then the Condition Precedent has not been waived.

3.4 Best endeavours

Each of the Target and the Acquirer agree to use their best endeavours to procure that:

- (a) each of the Conditions Precedent for which they are responsible, as noted in the table set out in Schedule 2:
 - (i) is satisfied as soon as practicable after the date of this deed; and
 - (ii) where a Condition Precedent is required to be satisfied:
 - (A) over a stated period, continues to be satisfied at all times until the last time it is to be satisfied as noted in the table set out in Schedule 2 (as the case may require); or
 - (B) at a specific time, at that time; and

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SCHEME IMPLEMENTATION DEED

(continued)

- (b) there is no occurrence that would prevent the Conditions Precedent for which they are responsible, as noted in the table set out in Schedule 2, being satisfied.

3.5 Regulatory matters

Without limiting clause 3.4 ("Best endeavours"), each party:

- (a) (approvals) must promptly apply for all consents, waivers and approvals of a Regulatory Authority which the Acquirer and the Target, acting reasonably, consider are necessary or desirable to implement the Scheme ("Regulatory Approvals") and take all steps it is responsible for as part of the approval process for the Scheme, including responding to requests for information at the earliest practicable time, but the parties are not required to take any action which would require the divestiture of material assets of the Target or the Acquirer or their Subsidiaries except in accordance with the transactions contemplated by this deed;
- (b) (representation) has the right to be invited to be represented and make submissions at any proposed meeting with any Regulatory Authority relating to any Regulatory Approval; and
- (c) (consultation) must use its best endeavours to consult with the other parties in advance in relation to all material communications (whether written or oral, and whether direct or via a Representative) with any Regulatory Authority relating to any Regulatory Approval ("Communications") and, without limitation:
 - (i) provide the other parties with drafts of any material written Communications to be sent to a Regulatory Authority and make such amendments as the other parties reasonably require; and
 - (ii) provide copies of any material written Communications sent to or received from a Regulatory Authority to the other parties promptly upon despatch or receipt (as the case may be),
- (d) in each case to the extent it is reasonable to do so.

3.6 Notices in relation to Conditions Precedent

Each party must:

- (a) (notice of satisfaction) promptly notify the others of satisfaction of a Condition Precedent and must keep the others informed of any material development of which it becomes aware that may lead to the breach or non-fulfilment of a Condition Precedent;
- (b) (notice of failure) immediately give written notice to the others of a breach or non-fulfilment of a Condition Precedent, or of any event which will prevent a Condition Precedent being satisfied; and
- (c) (notice of waiver) upon receipt of a notice given under subclause 3.6(b), give written notice to the other parties as soon as possible (and in any event before 8.00am on the Business Day before the Second Court Date) as to whether or not it waives the breach or non-fulfilment of any Condition Precedent resulting from the occurrence of that event, specifying the Condition Precedent in question.

3.7 Effect of waiver or non-fulfilment

A waiver of such breach or non-fulfilment in respect of one Condition Precedent does not constitute:

- (a) a waiver of the breach or non-fulfilment of any other Condition Precedent resulting from the same event; or
- (b) a waiver of the breach or non-fulfilment of that Condition Precedent resulting from any other event.

3.8 Consultation on failure of Condition Precedents

If:

- (a) there is a breach or non-fulfilment of a Condition Precedent which is not waived in accordance with this deed by the earlier of the End Date and the time or date specified in this deed for the satisfaction of the Condition Precedent;
- (b) there is an act, failure to act or occurrence which will prevent a Condition Precedent being satisfied by the time or date specified in this deed for the satisfaction of the Condition Precedent (and the breach or non-fulfilment which would otherwise occur has not already been waived in accordance with this deed); or
- (c) if the Scheme has not become Effective by the End Date,

then the parties must negotiate in good faith with a view to determining whether:

- (d) the Transaction may proceed by way of alternative means or methods;
- (e) to extend the relevant time for satisfaction of the Condition Precedent or to adjourn or change the date of an application to the Court; or
- (f) to extend the End Date.

3.9 Failure to agree

If the parties are unable to reach agreement under clause 3.8 ("Consultation on failure of Condition Precedents") within five Business Days (or any shorter period ending at 8.00am on the Business Day before the Second Court Date):

- (a) subject to subclause 3.9(b), any of the parties may terminate this deed (and such termination will be in accordance with clause 14.1(e)(i)); or
- (b) if a Condition Precedent may be waived and exists for the benefit of one party only, that party only may waive that Condition Precedent or terminate this deed (and such termination will be in accordance with clause 14.1(e)(ii)),

in each case before 8.00am on the Second Court Date. A party will not be entitled to terminate this deed pursuant to this clause 3.9 if the relevant Condition Precedent has not been satisfied or agreement cannot be reached as a result of a breach of this deed by that party.

4 Outline of Scheme

4.1 Scheme

Subject to the terms and conditions of this deed, the Target agrees to propose the Scheme to Scheme Participants under which:

- (a) all of the Scheme Shares will be transferred to the Acquirer; and
- (b) Scheme Participants will receive the Scheme Consideration from the Acquirer for each Scheme Share.

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(continued)

4.2 Payments

Pursuant to the Scheme, Scheme Participants will receive the Scheme Consideration for each Scheme Share in accordance with the Scheme and the Deed Poll.

4.3 Scheme Consideration

- (a) The Acquirer covenants in favour of the Target (in its own right and on behalf of each Scheme Participant) that in consideration of the transfer to the Acquirer of each Scheme Share held by a Scheme Participant, the Acquirer will, on the Implementation Date, pay to that Scheme Participant the Scheme Consideration for each Scheme Share and for that purpose will pay (or procure the payment of) the Scheme Consideration into the Trust Account for despatch as soon as is practicable.
- (b) By the First Court Date, the Acquirer will provide the Target written evidence that it will have available to it sufficient cash amounts whether from:
 - (i) internal cash resources; or
 - (ii) external funding arrangements; or
 - (iii) a combination of both (i) and (ii),

to satisfy its obligation to pay the Scheme Consideration in accordance with clause 4.3(a).

4.4 Undertakings held for Scheme Participants

The Target acknowledges that the undertakings by the Acquirer in clause 4.3 ("Scheme Consideration") are given to the Target in its own right and in its capacity as nominee for, or on behalf of, for each Scheme Participant.

4.5 Payment to Scheme Participants

The Target must:

- (a) receive in a trust account in accordance with the Scheme and as agent for each Scheme Participant the amount paid in accordance with clause 4.3 ("Scheme Consideration");
- (b) pay to each Scheme Participant such moneys as each Scheme Participant is entitled to receive in accordance with the Scheme; and
- (c) otherwise comply with its obligations under the Scheme.

4.6 Target On-Sale Business

The parties acknowledge that from implementation of the Scheme until completion of the Share and Business Acquisition Agreement (which is to occur immediately following implementation of the Scheme), the Acquirer (and its relevant seller entities) holds the Target On-Sale Business as agent for MHA and / or the relevant MHA purchaser entities.

5 Co-operation and timing

5.1 General obligations

- (a) The Target and the Acquirer must each:

- (i) use their best endeavours and commit necessary resources (including management and the resources of external advisers); and
- (ii) procure that its officers and advisers work in good faith and in a timely and co-operative fashion with the other parties (including by attending meetings and by providing information),

to produce the Scheme Booklet and implement the Scheme as soon as reasonably practicable and substantially in accordance with the Timetable.

- (b) The Target and the Acquirer agree to negotiate in good faith and agree reasonable variations to the Timetable if necessary or appropriate having regard to availability of the Court or counsel, requirements or requests of ASX or ASIC, or reasonable requests of the parties, but subject always to the principle that the Scheme is to be implemented as expeditiously as possible. However, to avoid doubt, nothing in this clause requires any party to agree to any variation of the End Date.
- (c) Where a variation to the Timetable is agreed pursuant to paragraph (b), the parties (acting reasonably, and as part of the Timetable negotiations) will agree corresponding adjustments to the reference dates and figures in the definition of Material Adverse Change.
- (d) Without limiting the foregoing paragraphs, each party acknowledges and agrees that:
 - (i) It is fundamental that completion of the On-Sale occurs on the Implementation Date, immediately following implementation of the Scheme;
 - (ii) The Acquirer and MHA must each use best endeavours to deliver a notice (signed by a director) to the other and to the Target, on or before 8.00am on the Second Court Date, confirming that they are ready, willing and able to complete the sale of the Target On-Sale Business in accordance with the Share and Business Acquisition Agreement on the Implementation Date, immediately following implementation of the Scheme; and
 - (iii) If, despite each party having used best endeavours under sub-paragraph (ii), a party is not able to deliver the notice contemplated by that sub-paragraph, the Acquirer, the Target and MHA must cooperate in good faith to agree the minimum necessary extension of the Timetable so that completion of the sale of the Target On-Sale Business can occur on the revised Implementation Date.

5.2 Transaction Implementation Working Group

- (a) The parties must establish a Transaction Implementation Working Group as soon as reasonably practicable after the date of this deed. The role of the Transaction Implementation Working Group will be to act as a forum for consultation and planning by parties to:
 - (i) implement the Transaction; and
 - (ii) subject to subclause 5.2(b), ensure the smooth transition of the management of the business and affairs of the Target Group to the Acquirer, and a smooth implementation of the transactions

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(continued)

contemplated by the Share and Business Acquisition Agreement, following the implementation of the Scheme.

- (b) The parties agree to consult with one another on the members of the Transaction Implementation Working Group.
- (c) Subject to this deed, nothing in this clause requires a party to act at the direction of another party. The business of each party will continue to operate independently from the other and representatives of each party will report to the full board of their respective appointors until the Implementation Date. The parties agree that nothing in this deed constitutes the relationship of a partnership, agency or a joint venture between the parties.

5.3 Independent Expert

The Target may appoint the Independent Expert (after consulting with the Acquirer and having regard to reasonable views of the Acquirer).

5.4 Access

- (a) Between the date of this deed and the earlier of the Implementation Date and the date this deed is terminated, the Target must:
 - (i) as soon as reasonably practicable provide the Acquirer and their Representatives as well as MHA Group and their Representatives with any documents, records and other information (subject to any existing confidentiality obligations owed to third parties, or applicable laws) reasonably requested by them; and
 - (ii) provide the Acquirer and MHA Group and their respective officers, employees and advisers and any other persons nominated by them with reasonable access to the Target's officers, employees and advisers which the Acquirer and MHA reasonably require, including for the purposes of:
 - (A) understanding the Target's business, financial position (including its cashflow and working capital position), trading performance and management control systems;
 - (B) implementing the Scheme;
 - (C) preparing for carrying on the business of the Target following implementation of the Transaction, and implementing the transactions contemplated by the Share and Business Acquisition Agreement; and
 - (D) any other purpose which is agreed in writing between the parties,

provided in every case that such access does not place an unreasonable burden on the ability of the Target to run its business or to perform its obligations under this deed.

- (b) Clause 5.4(a) ceases to operate upon a majority of the Target Board changing or withdrawing their recommendation that Target Shareholders vote in favour of the Scheme, or recommending a Superior Proposal, in each case in accordance with this deed.

5.5 Acquirer's right to separate representation

The Acquirer is entitled to separate representation at all Court proceedings relating to the Scheme. Nothing in this deed is to be taken to give Target any right or power to make or give undertakings to the Court for or on behalf of the Acquirer.

6 Implementation obligations of the parties

6.1 Target's obligations

The Target must comply with the obligations of the Target set out in Schedule 4 and take all reasonable steps that are necessary or reasonably requested by the Acquirer to implement the Scheme as soon as is reasonably practicable and in the most efficient manner for the Scheme Participants and in any event prior to the End Date.

6.2 Acquirer's obligations

The Acquirer must comply with the obligations set out in Schedule 5 and take all reasonable steps that are necessary or reasonably requested by the Target to assist the Target to implement transactions contemplated by this deed as soon as is reasonably practicable and in the most efficient manner for the Scheme Participants and in any event prior to the End Date.

6.3 Recommendation

Each Target Director, in the Target's public announcement to be issued in accordance with clause 15.1 ("Public announcement of Scheme"), the Scheme Booklet and any other material public statement made after the signing of this deed and relating to the Scheme or the Transaction must make a statement that, in the absence of a Superior Proposal and subject to the Independent Expert concluding and continuing to conclude that the Scheme is in the best interests of the Target Shareholders:

- (a) each member of the Target Board recommends that the Target Shareholders vote in favour of the Resolutions; and
- (b) confirms that each member of the Target Board intends to vote the Target Shares in which they have a Relevant Interest in favour of the Scheme Resolution.

6.4 Withdrawal or modification of recommendation

Subject to clause 6.5 ("Duties to Target Shareholders"), the Target must use best endeavours to ensure that:

- (a) each member of the Target Board intends to vote any Target Shares in which they have a Relevant Interest in favour of the Scheme Resolution in the absence of a Superior Proposal and subject to the Independent Expert concluding and continuing to conclude that the Scheme is in the best interests of the Target Shareholders; and
- (b) no member of the Target Board:
 - (i) withdraws or adversely modifies their recommendation of the Scheme as contemplated by clauses 6.3(a) and 6.3(b); or
 - (ii) makes any statement to the effect that they no longer recommend that the Target Shareholders vote in favour of the Scheme Resolution in the absence of a Superior Proposal and subject to the Independent Expert concluding and continuing to

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(continued)

conclude that the Scheme is in the best interests of Target Shareholders.

6.5 Duties to Target Shareholders

A member of the Target Board may withdraw or adversely modify their recommendation or any other material public statement of the Scheme, and not vote any Target Shares in which they have a Relevant Interest in favour of the Resolutions, if the Target has complied at all times with its obligations under clause 10 ("Exclusivity") and:

- (a) the Target Board determines that a Competing Transaction constitutes a Superior Proposal and the Target has notified the Acquirer in writing that one or more members of the Target Board intends to withdraw or adversely modify their recommendation of the Scheme and five Business Days has passed since that notification is given; or
- (b) the Independent Expert concludes that the Scheme is not in the best interests of Target Shareholders, or adversely changes its previously given opinion that the Scheme is in the best interests of the Target Shareholders.

7 Scheme Booklet

7.1 Preparation

Without limiting clauses 6.1 ("Target's obligations") or 6.2 ("Acquirer's obligations"):

- (a) (preparation) the Target is generally responsible for the preparation of the Scheme Booklet but will:
 - (i) provide drafts of the Scheme Booklet to the Acquirer in accordance with clause 7.2(a); and
 - (ii) obtain the prior written approval of the Acquirer in accordance with clause 7.2(e) before:
 - (A) providing the Regulator's Draft to ASIC for approval pursuant to section 411(2) of the Corporations Act; and
 - (B) requesting that ASIC register the explanatory statement included in the Scheme Booklet in accordance with item 9 of Schedule 4; and
 - (iii) rely on the Acquirer, with respect to the Acquirer Information in the Scheme Booklet; and
 - (iv) rely on MHA, with respect to the MHA Group Information in the Scheme Booklet.
- (b) (MHA review) the Target acknowledges and agrees that the Acquirer may provide the Scheme Booklet and drafts thereof to the MHA Group for the purposes of enabling the MHA Group to review and comment on the draft document;
- (c) (compliance - Target) the Target must take all necessary steps to endeavour to ensure that the Target Information:
 - (i) complies with the requirements of:
 - (A) the Corporations Act;

- (B) the Corporations Regulations;
 - (C) ASIC Regulatory Guide 60; and
 - (D) the Listing Rules; and
- (ii) is not, having regard to applicable disclosure requirements, misleading or deceptive in any material respect (including because of any material omission); and
- (d) (compliance - Acquirer) the Acquirer must take all necessary steps to endeavour to ensure that the Acquirer Information:
 - (i) complies with the requirements of:
 - (A) the Corporations Act;
 - (B) the Corporations Regulations;
 - (C) ASIC Regulatory Guide 60; and
 - (D) the Listing Rules; and
 - (ii) is not, having regard to applicable disclosure requirements, misleading or deceptive in any material respect (including because of any material omission).

7.2 Content of Scheme Booklet

Without limiting clause 6.1 ("Target's obligations"), the Target must:

- (a) (consult Acquirer):
 - (i) as soon as reasonably practicable after the date of this deed, provide to the Acquirer an initial draft of the Scheme Booklet for the purpose of enabling the Acquirer to review and comment on that draft document;
 - (ii) provide to the Acquirer amended drafts of the Scheme Booklet as reasonably agreed for the purpose of enabling the Acquirer to review and comment on those draft documents;
 - (iii) provided that the Target retains absolute discretion in relation to the Target Information, take comments made by the Acquirer into account in good faith when producing a revised draft of the Scheme Booklet; and
 - (iv) provide to the Acquirer a revised penultimate draft of the Scheme Booklet within a reasonable time before the Regulator's Draft is finalised and to enable the Acquirer to review the Regulator's Draft at least three Business Days before its submission;
- (b) (penultimate draft Scheme Booklet) take such comments made by the Acquirer in relation to the penultimate draft of the Scheme Booklet into account in good faith (provided that the Target retains absolute discretion in relation to the Target Information) prior to finalising the Regulator's Draft;
- (c) (approval of Regulator's Draft) as soon as reasonably practicable after finalisation of an advanced draft of the Regulator's Draft suitable for

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[continued]

review by ASIC, procure that a meeting of the Target Directors is convened to consider approving the Regulator's Draft as being in a form appropriate for provision to ASIC for review (and the Acquirer must also provide confirmation that they do not object to such submission, or if they do object, details of the basis of their objection);

- (d) (Regulatory Review Period) during the Regulatory Review Period:
 - (i) promptly provide to the Acquirer, and include in a revised draft of the Scheme Booklet, any new information not included in the Regulator's Draft which is required by the Corporations Act, Corporations Regulations, ASIC Regulatory Guide 60 or the Listing Rules to be included in the Scheme Booklet; and
 - (ii) keep the Acquirer informed of any matters raised by ASIC in relation to the Scheme Booklet (and copies of all relevant correspondence) and use best endeavours, in co-operation with the Acquirer, to resolve any such matters;
- (e) (Acquirer Information) obtain approval from the Acquirer, which approval must not be unreasonably withheld or delayed, for the form and context in which the Acquirer Information appears in the Scheme Booklet before:
 - (i) providing the Regulator's Draft to ASIC for approval pursuant to section 411(2) of the Corporations Act; and
 - (ii) requesting that ASIC register the explanatory statement included in the Scheme Booklet in accordance with item 9 of Schedule 4; and
- (f) (MHA Group Information) obtain approval from MHA for the form and context in which the MHA Group Information appears in the Scheme Booklet before:
 - (i) providing the Regulator's Draft to ASIC for approval pursuant to section 411(2) of the Corporations Act; and
 - (ii) requesting that ASIC register the explanatory statement included in the Scheme Booklet in accordance with item 9 of Schedule 4.

7.3 Acquirer information

Without limiting clause 6.2 ("Acquirer's obligations"), the Acquirer:

- (a) consents to the inclusion of the Acquirer Information in the Scheme Booklet; and
- (b) acknowledges that:
 - (i) it is responsible for ensuring that the Acquirer Information is not misleading or deceptive in any material respect (whether by omission or otherwise) and that the Target will not verify or edit the final form of that information in the Scheme Booklet; and
 - (ii) the Scheme Booklet will state that the Acquirer is responsible for the Acquirer Information, in accordance with clause 7.4 ("Scheme Booklet responsibility statements").

7.4 Scheme Booklet responsibility statements

The responsibility statement to appear in the Scheme Booklet, in a form to be agreed by the parties, will contain words to the effect of:

- (a) the Target has prepared, and is responsible for, the Target Information in the Scheme Booklet, and that the Acquirer and MHA and their respective directors and officers do not assume any responsibility for the accuracy or completeness of that Target Information except to the extent that the Acquirer and/or MHA has provided the Target with information for the purpose of the Target preparing such information;
- (b) the Acquirer has prepared, and is responsible for, the Acquirer Information specific to the Acquirer in the Scheme Booklet, and that the Target and its directors and officers do not assume any responsibility for the accuracy or completeness of that Acquirer Information except to the extent that the Target has provided the Acquirer with information for the purpose of Acquirer preparing such information; and
- (c) MHA has prepared, and is responsible for, the MHA Group Information specific to the MHA Group in the Scheme Booklet, and that the Target and its directors and officers do not assume any responsibility for the accuracy or completeness of that MHA Group Information except to the extent that the Target has provided MHA with information for the purpose of MHA preparing such information; and
- (d) the Independent Expert has prepared and is responsible for the Independent Expert's Report and:
 - (i) the Target and its directors and officers do not assume any responsibility for the accuracy or completeness of the Independent Expert's Report; and
 - (ii) the Acquirer and its directors and officers do not assume any responsibility for the accuracy or completeness of the Independent Expert's Report.

7.5 Disagreement on content

If the Acquirer and the Target disagree on the form or content of the Scheme Booklet, they must negotiate in good faith to try to settle an agreed form of the Scheme Booklet. If complete agreement is not reached after reasonable consultation, then:

- (a) if the disagreement relates to the form or content of the Acquirer Information or the MHA Group Information contained in the Scheme Booklet, the Target will make such amendments as the Acquirer reasonably requires; and
- (b) if the disagreement relates to the form or content of any other part of the Scheme Booklet, the Target Board will, acting in good faith, decide the final form or content of the disputed part of the Scheme Booklet.

7.6 Verification

Each party must undertake appropriate verification processes for the information prepared by that party for the Scheme Booklet.

8 Conduct of business

8.1 Overview

From the date of this deed up to and including the Implementation Date, the Target must conduct its business in the ordinary course consistent with applicable laws, the business plans made public or disclosed to the Acquirer prior to execution of this deed, and in substantially the same manner as conducted

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(continued)

over the previous year, and must regularly consult with the Acquirer on the manner of conduct of the business.

8.2 Specific obligations

Without limiting clause 8.1 ("Overview") and other than with the prior written approval of the Acquirer or as required by this deed, the Target must and must procure that its Subsidiaries, during the period contemplated by clause 8.1 ("Overview"):

- (a) (business and assets) use best endeavours to maintain the condition of its business and assets;
- (b) (relationships) use best endeavours to preserve its relationships with customers, suppliers, licensors, licensees, joint venturers (unless otherwise approved in writing between the parties) and others with whom it has business dealings;
- (c) (change of control provisions) identify any change of control or similar provisions in any significant contracts (including all Material Contracts);
- (d) (consents) use best endeavours to obtain the consents of relevant persons who have rights in respect of the transactions contemplated by the Transaction and the transactions contemplated by the Share and Business Acquisition Agreement (including the proposed novation or assignment of Target Group contracts to the acquirers of the Target On-Sale Business), provided that it must consult with the Acquirer in relation to any such provisions and consents and must, if the Acquirer so requests, involve them in the discussions and negotiations with the relevant third parties;
- (e) (cash) use the Target Group's cash only for the following:
 - (i) ordinary course of business;
 - (ii) Transaction Costs and other reasonable costs in relation to the Transaction (without prejudice to the Acquirer's rights under this deed in relation to a Target Material Adverse Change); and
 - (iii) Permitted Dividends;
- (f) (claims) promptly notify the Acquirer of any Action (including, without limitation, before a court or Regulatory Authority) which may be threatened, brought, asserted or commenced against any member of the Target Group (except in the ordinary course of business) or their directors and officers and consult with the Acquirer in relation to such matter to the extent they reasonably require;
- (g) (insurance) use best endeavours to have in place, and maintain until the Implementation Date, insurance over its assets and business to at least the same extent as that in place at the date of this deed; and
- (h) (SVU) use best endeavours to bring in the SVU project plan on budget and in accordance with the SVU Project Plan.

8.3 Prohibited actions

Other than with the prior written approval of the Acquirer or as required by this deed the Target must not, and must procure that its Subsidiaries do not, during the period referred to in clause 8.1:

- (a) (Target Prescribed Event) take any action which would be reasonably expected to give rise to a Target Prescribed Event;
- (b) (Target Prescribed Event agreement) agree to do anything which would be reasonably expected to give rise to a Target Prescribed Event;
- (c) (Material Contracts) enter into, amend or terminate, or roll over, a Material Contract other than in the ordinary course of business or:
 - (i) a Material Contract which both:
 - (A) has been disclosed to the Acquirer; and
 - (B) the Acquirer has agreed in writing to the entry into, termination or roll-over of such specific disclosed Material Contract;
 - (ii) a contract or commitment entered into for the extension, or roll over, of any contract or commitment of less than \$250,000; or
 - (iii) pursuant to this deed;
- (d) (employment agreements) except as approved in writing by the Acquirer, such proposal not to be unreasonably withheld or delayed:
 - (i) increase the remuneration of (including with regard to superannuation benefits) or benefits provided to employees from the level of remuneration or benefits provided as disclosed in the Due Diligence Materials; or
 - (ii) amend any employment or consultancy arrangement,

to the extent that such increase, benefit or amendment would require the approval of the Target's remuneration committee or relates to a salary in excess of \$100,000;
- (e) (new employment or consultancy agreements) employ, contract or enter into consultancy arrangements with any person on terms and conditions not approved in writing by the Acquirer, such approval not to be unreasonably withheld, to the extent that such employment, contract or arrangement would require the approval of the Target's remuneration committee or relates to a salary in excess of \$100,000;
- (f) (termination of employees) terminate the employment of any employee other than for cause;
- (g) (accelerate rights) accelerate the rights of any of its directors or employees to benefits of any kind (except under terms of existing contracts where the proposed acceleration was fairly disclosed in the Due Diligence Materials);
- (h) (transaction based payments) enter into any contract or commitment (including any employment contract), or renew or amend any existing contract or commitment, to provide for a payment to be made to the counterparty directly or indirectly as a result of:
 - (i) the Target or the Acquirer entering into this deed;
 - (ii) the Acquirer acquiring a Relevant Interest in the Target Shares; or

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- (iii) the Scheme or a transaction evidenced by this deed or the Scheme or the Share and Business Acquisition Agreement;
- (i) (financial advisers) amend in any material respect any arrangement with its financial advisers in respect of the transactions contemplated by this deed (including, without limitation any amendment which increases the amount payable to a financial adviser);
- (j) (dividends) announce, declare, determine as payable, or pay, any dividends (other than the Permitted Dividends or as otherwise agreed by the Acquirer in writing); or
- (k) (agreement) agree to do any of the matters set out above.

8.4 Permitted acts

Nothing in clause 8 restricts any member of the Target Group from doing anything:

- (a) that is contemplated in this deed;
- (b) that is fairly disclosed in the Due Diligence Materials or in any disclosure to ASX prior to the date of this deed; or
- (c) approved by the Acquirer in writing.

8.5 Appointment and retirement of Target Directors

As soon as practicable after the Second Court Date, and subject to but no later than immediately after the Scheme Consideration being paid into the Trust Account, the Target must:

- (a) cause the appointment of each Incoming Director to the Target Board;
- (b) procure that each of the Outgoing Directors retire from the Target Board and provide (subject to payment of any outstanding termination payment and remuneration) written notice to the effect that they have no claim outstanding for loss of office, remuneration or otherwise against the Target; and
- (c) reconstitute the boards of each other member of the Target Group in accordance with such directions (if any) given by the Acquirer to the Target.

9 Standstill

- (a) Subject to sub-clause (b), for a period of six months from the date of this deed, the Acquirer and its Related Bodies Corporate must not, and the Acquirer must use its best endeavours to procure that its directors and officers do not, without the prior written consent of the Target:
 - (i) subscribe, acquire, or offer to subscribe or acquire, or assist or induce any other person to acquire, any securities in the Target, other than pursuant to the Scheme;
 - (ii) enter, or assist or induce any other person to enter, into any agreement or arrangement which confers rights, the economic effect of which is equivalent, or substantially equivalent to, the acquisition, holding or disposal of any securities in the Target, other than pursuant to the Scheme;

- (iii) solicit proxies from holders of securities in the Target, or otherwise try to influence or control the management of the Target, other than in connection with the Scheme Meeting or pursuant to this deed;
 - (iv) assist (including by providing Target Confidential Information), encourage, counsel, induce, instruct or ask any other person to do anything in clauses (i), (ii) or (iii) above.
- (b) Nothing in this clause 9 prevents:
- (i) the Acquirer from proposing a control transaction at a higher financial value and on terms more favourable to the Target Shareholders to a control transaction proposed by a third party and acquiring securities in the Target on the terms of such a proposal; or
 - (ii) the Acquirer from doing anything in clauses 9(a)(i), 9(a)(ii) and 9(a)(iii) above if the Acquirer is notified of a Competing Transaction in accordance with clause 10.5.

10 Exclusivity

10.1 No existing discussions

The Target represents and warrants that, other than the discussions with the Acquirer in respect of the Transaction, it is not currently in negotiations or discussions in respect of any Competing Transaction with any person.

10.2 No-shop

Subject to clause 10.7 ("Further exceptions"), during the Exclusivity Period, the Target must ensure that neither it nor any of its Related Bodies Corporate nor any of its or their Representatives directly or indirectly:

- (a) solicits, invites, encourages or initiates any enquiries, negotiations or discussions; or
- (b) communicates any intention to do any of these things,

in respect of obtaining any offer, proposal or expression of interest, or responding to an offer to solicit a revised offer or proposal, from any person in relation to, or which may be reasonably expected to lead to, a Competing Transaction.

10.3 No-talk

Subject to clauses 10.6 ("Exceptions") and 10.7 ("Further exceptions"), during the Exclusivity Period, the Target must ensure that neither it nor any of its Related Bodies Corporate nor any of its or their Representatives:

- (a) negotiates or enters into; or
- (b) participates in negotiations or discussions with any other person regarding,

a Competing Transaction or any offer, proposal or expression of interest from any person in relation to, or which may be reasonably expected to lead to, a Competing Transaction.

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10.4 Due diligence information

Subject to clauses 10.6 ("Exceptions") and 10.7 ("Further exceptions"), during the Exclusivity Period, the Target must ensure that, other than in the ordinary course of business, neither it nor any of its Related Bodies Corporate nor any of its or their Representatives:

- (a) solicits, invites, initiates, encourages, permits or, facilitates any other person other than the Acquirer and MHA and their Representatives to undertake due diligence investigations on any member of the Target Group or their businesses or operations; or
- (b) makes available to any other person or permits any other person to receive other than the Acquirer and MHA and their Representatives (in the course of due diligence investigations or otherwise) any non-public information relating to any member of the Target Group or their businesses or operations.
- (c) If, as a result of the operation of clauses 10.6 ("Exceptions") or 10.7 ("Further exceptions"), any such information is made available to any other person, the same information must immediately be made available to the Acquirer.

10.5 Notice of unsolicited approach

During the Exclusivity Period, the Target must promptly notify the Acquirer if it or any of its Related Bodies Corporate or Representatives receives (directly or indirectly) any unsolicited approach, enquiry, proposal or attempt to initiate any negotiations or discussions with respect to any Competing Transaction and must disclose to the Acquirer the fact that such an approach has been made and the nature of the approach, including the price or consideration proposed. A material variation to a previous approach or proposal is taken to be a new approach or proposal for the purposes of this clause.

10.6 Exceptions

Clauses 10.3 ("No-talk") and, where relevant, clause 10.4 ("Due diligence information") and (to the extent it relates to disclosure of identity only) clause 10.5 ("Notice of unsolicited approach"), do not apply to the extent that they restrict the Target or the Target Board from:

- (a) considering a Competing Transaction;
- (b) taking or refusing to take any action with respect to a Competing Transaction; or
- (c) responding to a new or revised proposal from a bidder who had engaged with the Target prior to the date of this deed, or any person approached by the Target prior to the date of this deed;

provided in each case that the Competing Transaction or proposal was not solicited, invited, encouraged or initiated by the Target in contravention of clause 10.2 ("No-shop") and that the Target Board has determined, in good faith and acting reasonably that:

- (d) after consultation with its financial advisors, such a Competing Transaction could reasonably be considered to be, or to be capable of becoming, a Superior Proposal; and
- (e) after receiving written advice from external legal advisers, that failing to respond to such a Competing Transaction would:

- (i) be reasonably likely to constitute a breach of the Target Board's fiduciary or statutory obligations; or
- (ii) otherwise be unlawful to not undertake such action,

and subject always to clause 10.7 ("Further exceptions").

10.7 Further exceptions

Nothing in this deed prevents the Target from:

- (a) continuing to make normal presentations to, and to respond to enquiries from, brokers, portfolio investors and analysts in the ordinary course in relation to the Transaction or its business generally; or
- (b) fulfilling its continuous disclosure requirements.

10.8 Response to Competing Transaction

- (a) The Target Board must not enter into any legally binding agreement, arrangement or understanding with respect to a Competing Transaction or publicly change or withdraw its recommendation of the Scheme or the Resolutions unless the Target has first provided the Acquirer with:
 - (i) the identity of the person proposing the Competing Transaction;
 - (ii) the material terms of the Competing Transaction; and
 - (iii) any material information provided to the person making the Competing Transaction that has not either been publicly disclosed or previously provided to the Acquirer,
- (b) and has given the Acquirer five Business Days to amend the terms of the Transaction ("Counterproposal") so that the Counterproposal would provide an outcome that is equal or superior for Target Shareholders as a whole compared with the Competing Transaction.
- (c) The Target Board, acting reasonably and in good faith, must consider any Counterproposal, and if, in the opinion of the Target Board, the Counterproposal would provide an outcome that is superior for Target Shareholders as a whole compared with the Competing Transaction, taking into account all the terms and conditions of the Counterproposal, then the Target and the Acquirer must use their best endeavours to agree the amendments to this deed which are reasonably necessary to reflect the Counterproposal and to implement the Counterproposal, in each case as soon as reasonably practicable.
- (d) This clause 10.8 does not apply to the extent that it requires the Target or the Target Board to take, or omit to take, any action in respect of a Competing Transaction (which was not solicited, facilitated, encouraged, invited or initiated by the Target or any of its Representatives in breach of clause 10.2 ("No-shop")) where the Target Board has determined, in good faith and acting reasonably after receiving written advice from external lawyers, that taking, or omitting to take, such action would constitute a breach of the directors' fiduciary or statutory obligations, or would otherwise be unlawful.

10.9 Enforcement of 'standstill' obligations

The Target agrees not to terminate or waive, and to enforce, any 'standstill' obligation owed to it by any third party, except that it may waive such an obligation only to the extent necessary to permit a Competing Proposal:

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(continued)

- (a) that the Target Board has determined in accordance with clause 6.5(a) is a Superior Proposal;
- (b) that was not solicited, invited, encouraged or initiated by the Target in contravention of clause 10.2 ("No-shop"); and
- (c) in respect of which the Target has otherwise complied with clause 10, including clause 10.8 ("Response to Competing Transaction").

The Target confirms that it has not agreed to terminate or waive such an obligation in the month prior to the date of this deed.

10.10 Legal advice

The Target acknowledges that it has received legal advice on this deed and the operation of this clause 10.

11 Reimbursement of Acquirer costs

11.1 Background

This clause 11 has been agreed in circumstances where:

- (a) the Acquirer and the Target believe that the Transaction will provide significant benefits to the Acquirer, the Target and their respective shareholders, and the Acquirer and the Target acknowledge that, if they enter into this deed and the Scheme is subsequently not implemented, the Acquirer will incur significant costs;
- (b) the Acquirer requested that provision be made for the payments outlined in clause 11.2 ("Payment by Target to Acquirer"), without which the Acquirer would not have entered into this deed;
- (c) the Target Board and the Acquirer Board each believe that it is appropriate for all parties to agree to the payment referred to in this clause 11 to secure the Acquirer's participation in the Transaction; and
- (d) the parties have received legal advice on this deed and the operation of this clause 11.

11.2 Payment by Target to Acquirer

The Target agrees to pay \$900,000, in aggregate, to the Acquirer if any of the following circumstances occur:

- (a) **(withdrawal or modification of recommendation)** any Target Director:
 - (i) fails to recommend the Scheme or the Scheme Resolution as contemplated by clauses 6.3(a) and 6.3(b); or
 - (ii) withdraws or adversely modifies that recommendation;

except:

 - (iii) if a Target Director changes their recommendation following the receipt of the Independent Expert's Report (or any update of that report) where that report (or any update of that report) states that in the opinion of the Independent Expert the Scheme is not in the best interests of Target Shareholders (other than because of a Superior Proposal to which clause 11.2(b) applies); or

- (iv) as a result of any matter or thing giving the Target the right to terminate under clause 14.1 ("Termination events");
- (b) **(Competing Transaction)** either:
 - (i) the Target enters into a legally binding agreement to undertake a Competing Transaction; or
 - (ii) any Target Director withdraws or adversely modifies their recommendation of the Scheme or the Scheme Resolution as contemplated by clauses 6.3(a) and 6.3(b) as a result of a Competing Transaction being proposed; or
 - (iii) the Target Board announces that a Competing Transaction is a Superior Proposal; or
 - (iv) a Competing Transaction is announced and at any time before five months after the End Date the proponent of the Competing Transaction (together with its associates, as that term is defined with reference to Chapter 6 of the Corporations Act) has a Relevant Interest in more than 50% of the Target Shares, or acquires or obtains an economic interest in all or a substantial part of the assets of the Target Group, except where a matter or thing has arisen giving the Target the right to terminate under clauses 14.1(g), 14.1(h) and 14.1(j); or
- (c) **(material breach)** the Transaction does not proceed because the Target is in material breach of any clause of this deed (including a representation or warranty), provided that the Acquirer has, if practicable, given notice to the Target setting out the relevant circumstances and the relevant circumstances continue to exist five Business Days (or any shorter period ending at 8.00am on the Second Court Date) after the time such notice is given.

11.3 No amount payable if Scheme becomes Effective

Notwithstanding the occurrence of any event under clause 11.2 ("Payment by Target to Acquirer") no amount is payable under clause 11.2 ("Payment by Target to Acquirer") if the Scheme becomes Effective.

11.4 Timing of payment

The Target must pay the Acquirer and MHA (in equal proportions) the amount referred to in clause 11.2 ("Payment by Target to Acquirer") within ten Business Days of receipt by the Target of a valid written demand for payment from the Acquirer. The demand may only be made, after the occurrence of an event referred to in clauses 11.2(a), 11.2(b) or 11.2(c); and in each case, the basis for the demand is set out in the notice. The Acquirer shall hold the right of MHA to be paid its proportion of any amount paid by the Target under this clause on behalf of or for the benefit of MHA.

11.5 Nature of payment

The amount payable by the Target to the Acquirer under clause 11.2 ("Payment by Target to Acquirer") is an amount to compensate the Acquirer for:

- (a) advisory costs (including costs of advisers other than success fees);
- (b) costs of management and directors' time;
- (c) out-of-pocket expenses; and

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(continued)

- (d) reasonable opportunity costs incurred by the Acquirer in pursuing the transactions contemplated by this deed or in not pursuing other alternative acquisitions or strategic initiatives which the Acquirer could have developed to further its business and objectives,

but, subject to this deed, is without prejudice to and does not limit any rights which the Acquirer, any Acquirer Indemnified Party or any shareholder of the Acquirer may have against the Target, other than reduction of damages in light of the payment towards costs, opportunity costs and expenses.

11.6 Reimbursement Fee payable only once

Where the fee (**Reimbursement Fee**) becomes payable to the Acquirer under clause 11.2 and is actually paid in accordance with this deed, the Acquirer cannot make any claim against the Target for payment of any subsequent Reimbursement Fee.

11.7 Reduction in amount payable

- (a) The amount payable by the Target to the Acquirer under clause 11.2 is reduced by an amount equal to the amount which is recovered by the Acquirer as a result of a claim against the Target pursuant to any other remedies available to the Acquirer under this agreement including pursuant to clause 12.
- (b) Where the amount payable by the Target to the Acquirer under clause 11.2 has already been paid, the Acquirer must, within two Business Days of the event contemplated by clause 11.7(a) which would have reduced the amount payable, refund an amount to the Target which is equivalent to that calculated under clause 11.7(a).

11.8 Limitations of Liability

- (a) To the extent permitted by law, notwithstanding any other provision of this deed:
 - (i) the maximum liability of the Acquirer to the Target Indemnified Parties under or in connection with this deed including in respect of any breach of the deed will be \$5,400,000; and
 - (ii) the maximum liability amount referred to in clause 11.8(a)(i) represents the maximum and absolute amount of the liability of the Acquirer under or in connection with this deed and no further damages, fees, expenses or reimbursements of any kind will be payable by the Acquirer in connection with this deed, except that nothing in this clause 11.8(a) limits the liability of the Acquirer for any breach of clauses 4.2 to 4.5.
- (b) To the extent permitted by law, notwithstanding any other provision of this deed but subject to clause 11.9:
 - (i) the maximum liability of the Target to the Acquirer Indemnified Parties under or in connection with clauses 11.2(a) and 11.2(b) of this deed will be the \$900,000 Reimbursement Fee payable under clause 11.2; and
 - (ii) otherwise, the maximum liability of the Target to the Acquirer Indemnified Parties under or in connection with this deed including in respect of any breach of the deed (excluding in relation to clauses 11.2(a) and 11.2(b)) will be \$5,400,000; and

- (iii) the maximum liability amounts referred to in clauses 11.8(b)(i) and 11.8(b)(ii) represent the maximum and absolute amount of the liability of the Target under or in connection with this deed and no further damages, fees, expenses or reimbursements of any kind will be payable by the Target in connection with this deed.
- (c) Nothing in this clause 11.8 limits the liability of any party for fraud.
- (d) No party to this deed may make a claim against the other party for an amount to the extent the relevant claim is for any consequential or indirect losses (which, in the case of the Acquirer and for the avoidance of doubt, shall not exclude any liability or loss, other than for consequential or indirect losses, arising from a breach of warranty claim against the Acquirer under the Share and Business Acquisition Agreement).

11.9 Compliance with law

- (a) This clause 11 does not impose an obligation on the Target to pay the Reimbursement Fee to the extent (and only to the extent) that the obligation to pay the Reimbursement Fee:
 - (i) is declared by the Takeovers Panel to constitute 'unacceptable circumstances'; or
 - (ii) is determined to be unenforceable or unlawful by a court,
 - (iii) after all proper avenues of appeal and review, judicial and otherwise, have been exhausted.
- (b) The parties must not make or cause or permit to be made, any application to the Takeovers Panel or a court for or in relation to a declaration or determination referred to in this clause 11.9(a).

11.10 Survival

Any accrued obligations under this clause 11 survive termination of this deed.

11.11 Notice to be given by Acquirer

A notice under this clause 11 must be given by the Acquirer to be valid.

12 Representations and warranties

12.1 Target's representations and warranties

- (a) The Target represents and warrants to the Acquirer (on its own behalf and separately as nominee for, or on behalf of, each of the Acquirer Indemnified Parties) that each of the statements set out in Schedule 6 is true and correct in all material respects as at the date of this deed and as at 8.00am on the Second Court Date or as at such other time and date as may be specified in the relevant statements in Schedule 6.
- (b) The Acquirer acknowledges and agrees that the Target has disclosed or is deemed to have disclosed against the statements set out in Schedule 1 and Schedule 6, and the Acquirer is aware of, and will be treated as having actual knowledge of, all facts, matters and circumstances that:
 - (i) are provided for or described in this deed;

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- (ii) are fairly disclosed in the Due Diligence Materials or ASX announcement prior to the date of this deed;
- (iii) were, prior to the date of this deed within the actual knowledge of the Acquirer or its Related Bodies Corporate; or
- (iv) in relation to any liability to MHA or its Related Bodies Corporate, were, prior to the date of this deed within the actual knowledge of Munich Re or its Related Bodies Corporate.

12.2 Target's indemnity

The Target indemnifies the Acquirer Indemnified Parties against all Losses incurred directly as a result of any of the representations and warranties in clause 12.1 ("Target's representations and warranties") not being true and correct in all material respects on the date(s) on which they are given.

12.3 Target warranty certificate

The Target must provide to the Acquirer by 8.00am on the Second Court Date a certificate signed by a Target Director and made in accordance with a resolution of the Target Board stating, as at that date, that the representations or warranties given by the Target in clause 12.1 ("Target's representations and warranties") remain true and correct or, if any such representation or warranty is not true and correct as at that date, providing complete particulars of the facts and matters which make the representation or warranty untrue or incorrect.

12.4 Acquirer's representations and warranties

The Acquirer represents and warrants to the Target (on its own behalf and separately as nominee for, or on behalf of, each of the Target Indemnified Parties) that each of the statements set out in Schedule 7 is true and correct in all material respects as at the date of this deed and as at 8.00am on the Second Court Date or as at such other time and date as may be specified in the relevant statements in Schedule 7.

12.5 Acquirer's indemnity

The Acquirer indemnifies the Target Indemnified Parties against all Losses incurred directly as a result of any of the representations and warranties in clause 12.4 ("Acquirer's representations and warranties") by the Acquirer not being true and correct in all material respects on the date(s) on which they are given.

12.6 Acquirer warranty certificate

The Acquirer must provide to the Target by 8.00am on the Second Court Date a certificate signed by a director of the Acquirer and made in accordance with a resolution of the Acquirer Board stating, as at that date, that the representations and warranties given by the Acquirer in clause 12.4 ("Acquirer's representations and warranties") remain true and correct or, if any such representation or warranty is not true and correct as at that date, providing complete particulars of the facts and matters which make the representation or warranty untrue or incorrect.

13 Court proceedings

13.1 Appeal process

If the Court refuses to make orders convening the Scheme Meeting or approving the Scheme, the Acquirer and the Target must appeal the Court's decision to the fullest extent possible except to the extent that:

- (a) the parties agree otherwise; or
- (b) external legal advisers representing that party in relation to the Scheme indicates in writing that, in their opinion, an appeal would likely have less than a 50% prospect of success,

in which case any of the parties may terminate this deed in accordance with clause 14.1(e)(iii).

13.2 Defence of proceedings

The Acquirer and the Target must vigorously defend, or must cause to be vigorously defended, any lawsuits or other legal proceeding brought against it (or any of its Subsidiaries) challenging this deed or the completion of the Transaction. The Acquirer and the Target will not settle or compromise (or permit any of its Subsidiaries to settle or compromise) any claim brought in connection with this deed without the prior written consent of the other parties, such consent not to be unreasonably withheld.

13.3 Costs

Any costs incurred as a result of the operation of this clause 13 will be borne in equal shares by each party.

14 Termination

14.1 Termination events

Without limiting any other provision of this deed (including clauses 3.9 ("Failure to agree") and 13.1 ("Appeal process")), this deed may be terminated:

- (a) **(End Date)** by any party, if the Scheme has not become Effective by the End Date;
- (b) **(lack of support)** by the Acquirer, at any time prior to 8.00am on the Second Court Date if any Target Director who was a Target Director as at the date of this deed changes their recommendation or ceases to recommend to Scheme Participants that they vote in favour of the Resolutions as contemplated by clauses 6.3(a) or 6.3(b), including any adverse modification to their recommendation as contemplated by clauses 6.3(a) or 6.3(b);
- (c) **(competing interest)** by the Acquirer, if a person (other than a member of the Acquirer Group or the MHA Group) acquires a Relevant Interest in more than 15.1% of the Target Shares or acquires a Relevant Interest in any shares in CIL, CAS or QUS following the date of this deed;
- (d) **(Superior Proposal)** by any party if the Target Board determines and publicly announces that a Competing Transaction (without breach of clause 10 ("Exclusivity")) is a Superior Proposal. However, Target cannot terminate this deed until after the procedure in clause 10.8 ("Response to Competing Transaction") has been followed in good faith;
- (e) **(consultation, appeal failure)** in accordance with and pursuant to:
 - (i) clause 3.9(a);
 - (ii) clause 3.9(b); or
 - (iii) clause 13.1 ("Appeal process");

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- (f) **(material breach by Target)** by the Acquirer, if the Target breaches a material term of this deed or if MHA breaches the MHA deed poll and the Acquirer has, if practicable, given notice to the Target setting out the relevant circumstances and the relevant circumstances continue to exist five Business Days (or any shorter period ending at 8.00am on the Second Court Date) after the time such notice is given;
- (g) **(material breach by the Acquirer)** by the Target, if the Acquirer breaches a material term of this deed or if MHA breaches the MHA deed poll and the Target has, if practicable, given notice to the Acquirer setting out the relevant circumstances and the relevant circumstances continue to exist five Business Days (or any shorter period ending at 8.00am on the Second Court Date) after the time such notice is given;
- (h) **(Insolvency)** by any party if any other party or MHA or (in the case of termination by the Acquirer only) any Subsidiary of the Target becomes Insolvent;
- (i) **(agreement)** if agreed to in writing by the Acquirer and the Target; or
- (j) **(representation or warranty)** by any party if a representation or warranty given by another party under clause 13 is or becomes untrue in any material respect and the breach of the representation or warranty is of a kind that, had it been disclosed to the first party before its entry into this deed, could reasonably be expected to have resulted in that first party either not entering into this deed or entering into it on materially different terms (and the terminating party has, if practicable, given notice to the party who gave the warranty setting out the relevant circumstances and the relevant circumstances continue to exist five Business Days (or any shorter period ending at 8.00am on the Second Court Date) after the time such notice is given),

provided, in the case of any termination in circumstances where the terminating party would (or would if the Scheme does not become Effective) be liable to pay an amount under clause 11 ("Reimbursement of Acquirer costs"), termination may only occur if such amount has been paid or its payment has been secured to the satisfaction of the party which would be entitled to receive it.

14.2 Termination

Where a party has a right to terminate this deed, that right for all purposes will be validly exercised if the party delivers a notice in writing to the other parties stating that it terminates this deed (and, if relevant, complies with the proviso at the end of clause 14.1 ("Termination events")).

14.3 Effect of Termination

In the event that a party terminates this deed, or if this deed otherwise terminates in accordance with its terms, then in either case all further obligations of the parties under this deed, other than the obligations set out in clauses 11 ("Reimbursement of Acquirer costs"), 13 ("Court proceedings"), 14.4 ("Damages"), 15 ("Public announcements"), 16 ("Confidential Information"), 17 ("Notices and other communications") and 18 ("Goods and services tax (GST)") will immediately cease to be of further force and effect without further liability of any party to the other, provided that nothing in this clause releases any party from liability for any pre-termination breach of this deed.

14.4 Damages

In addition to the right of termination under clause 14.1 ("Termination events") where there is no appropriate remedy for the breach of this deed (other than termination), the non-defaulting party is entitled to damages for Losses suffered

by it and expenses incurred by it as a result of the breach of this deed. Any award of damages will be reduced by any payment made under clause 11 ("Reimbursement of Acquirer costs").

15 Public announcements

15.1 Public announcement of Scheme

Immediately after signing this deed, the Target and the Acquirer will issue public announcements of the proposed Transaction in a form to be agreed by them (acting reasonably).

15.2 Required disclosure

Where a party is required by law, the Listing Rules or a memorandum of understanding with a Regulatory Authority to make any announcement or make any disclosure relating to a matter the subject of the Transaction, it may do so only to the extent required and after it has given the other parties as much notice as possible and has consulted to the fullest extent possible in the circumstances with the other parties and their legal advisers.

15.3 Other announcements

Subject to clauses 15.1 ("Public announcement of Scheme") and 15.2 ("Required disclosure"), no party may make any public announcement or disclosure in connection with the Transaction (including disclosure to a Regulatory Authority) other than in a form approved by each party (acting reasonably), subject to any approval by the other party being promptly given to ensure disclosure is made in the time required by the Listing Rules (if applicable) or the requirements of any Regulatory Authority. Each party will use its best endeavours to provide such approval as soon as practicable.

16 Confidential Information

16.1 Disclosure of Acquirer Confidential Information

No Acquirer Confidential Information may be disclosed by the Target to any person except:

- (a) Representatives of the Target or its Related Bodies Corporate requiring the information for the purposes of this deed; or
- (b) for the purposes of preparing the Scheme Booklet, associated documentation, pleadings, evidence and submissions for the Court hearings; or
- (c) with the consent of the Acquirer, in respect of the Acquirer Confidential Information which consent may be given or withheld in its absolute discretion; or
- (d) if the Target is required to do so by law or by the ASX (but only to the extent required and if the requirement was not caused by a voluntary action of the Target); or
- (e) if the Target is required to do so in connection with legal proceedings relating to this deed.

16.2 Use of Acquirer Confidential Information

The Target must use the Acquirer Confidential Information exclusively for the purpose of due diligence and preparing the Scheme Booklet (and other documentation referred to in clause 16.1(b)) and for no other purpose (and must

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not make any use of any the Acquirer Confidential Information to the competitive disadvantage of the Acquirer or any of their Related Bodies Corporate).

16.3 Disclosure of Target Confidential Information

No Target Confidential Information may be disclosed by the Acquirer to any person except:

- (a) the MHA Group and its Representatives in connection with the Transaction and the Target On-Sale Business;
- (b) Representatives of the Acquirer or their Related Bodies Corporate requiring the information for the purposes of this deed; or
- (c) for the purposes of pleadings, evidence and submissions for the Court hearings (where applicable); or
- (d) with the consent of the Target which consent may be given or withheld in its absolute discretion; or
- (e) if the Acquirer is required to do so by law or by a stock exchange (but only to the extent required); or
- (f) if the Acquirer is required to do so in connection with legal proceedings relating to this deed.

16.4 Use of Target Confidential Information

The Acquirer must use the Target Confidential Information exclusively for the purpose of due diligence, commenting on the Scheme Booklet (or for preparing or commenting on other documentation referred to in clause 16.3(c) where applicable) and for no other purpose (and must not make any use of any the Target Confidential Information to the competitive disadvantage of the Target or any of its Related Bodies Corporate).

16.5 Disclosure by recipient of Confidential Information

Any party disclosing information under clause 16.1(a) or 16.1(c) or clause 16.3(a), 16.3(b) or 16.3(d) must use best endeavours to ensure that persons receiving Confidential Information from it do not disclose the information except in the circumstances permitted in clause 16.1 ("Disclosure of Acquirer Confidential Information") or clause 16.3 ("Disclosure of Target Confidential Information").

16.6 Excluded Information

Clauses 16.1 ("Disclosure of Acquirer Confidential Information"), 16.2 ("Use of Acquirer Confidential Information"), 16.3 ("Disclosure of Target Confidential Information"), 16.4 ("Use of Target Confidential Information") and 16.5 ("Disclosure by recipient of Confidential Information") do not apply to the Excluded Information.

16.7 Confidentiality Agreement

Each party acknowledges and agrees that it continues to be bound by the Confidentiality Agreement (for so long as that document remains in force) in respect of all information received by it from the other parties on, before or after the date of this deed.

16.8 Termination

This clause 16 will survive termination (for whatever reason) of this deed.

17 Notices and other communications

17.1 Form - all communications

Unless expressly stated otherwise in this deed, all notices, certificates, consents, approvals, waivers and other communications in connection with this deed must be:

- (a) in writing;
- (b) signed by the sender (if an individual) or an Authorised Officer of the sender; and
- (c) marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the way last notified.

17.2 Form - communications sent by email

Communications sent by email need not be marked for attention in the way stated in clause 17.1 ("Form - all communications"). However, the email:

- (a) must state the first and last name of the sender; and
- (b) must be in plain text format or, if attached to an email, must be an Adobe Portable Document Format (pdf) file.

Communications sent by email are taken to be signed by the named sender.

17.3 Delivery

Communications must be:

- (a) left at the address set out or referred to in the Details;
- (b) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;
- (c) sent by fax to the fax number set out or referred to in the Details;
- (d) sent by email to the address set out or referred to in the Details; or
- (e) given in any other way permitted by law.

However, if the intended recipient has notified a changed address, fax number or email address, then communications must be to that address, fax number or email address.

17.4 When effective

Communications take effect from the time they are received or taken to be received under clause 17.5 ("When taken to be received") (whichever happens first) unless a later time is specified.

17.5 When taken to be received

Communications are taken to be received:

- (a) if sent by post, three days after posting (or seven days after posting if sent from one country to another);
- (b) if sent by fax, at the time shown in the transmission report as the time that the whole fax was sent; or

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- (c) if sent by email;
 - (i) when the sender receives an automated message confirming delivery; or
 - (ii) four hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered,
- whichever happens first.

17.6 Receipt outside business hours

Despite clauses 17.4 ("When effective") and 17.5 ("When taken to be received"), if communications are received or taken to be received under clause 17.5 ("When taken to be received") after 5.00pm in the place of receipt or on a non-Business Day, they are taken to be received at 9.00am on the next Business Day and take effect from that time unless a later time is specified.

18 Goods and services tax (GST)

18.1 Consideration GST exclusive

Unless expressly stated otherwise in this deed, all amounts payable or consideration to be provided under this deed are exclusive of GST.

18.2 Payment of GST

If GST is payable on any supply made under this deed, for which the consideration is not expressly stated to include GST, the recipient agrees to pay to the supplier an additional amount equal to the GST payable at the same time that the consideration for the supply, or the first part of the consideration for the supply (as the case may be), is to be provided. However:

- (a) the recipient need not pay the additional amount until the supplier gives the recipient a tax invoice or an adjustment note; and
- (b) if an adjustment event arises in respect of the supply, the additional amount must be adjusted to reflect the adjustment event and the recipient or the supplier (as the case may be) must make any payments necessary to reflect the adjustment.

18.3 Reimbursements

If a party is required under this deed to indemnify another party, or pay or reimburse costs of another party, that party agrees to pay the relevant amount less any input tax credits to which the other party (or to which the representative member for a GST group of which the other party is a member) is entitled, except to the extent that the relevant event is a taxable supply for GST purposes.

18.4 Calculation of payments

If an amount payable under this deed is to be calculated by reference to:

- (a) the price to be received for a taxable supply then, for the purposes of that calculation, the price is reduced to the extent that it includes any amount on account of GST; and
- (b) the price to be paid or provided for an acquisition then, for the purposes of that calculation, the price is reduced to the extent that an input tax credit is available for the acquisition.

18.5 Interpretation

For the purposes of this clause 18:

- (a) a term which has a defined meaning in the GST Act has the same meaning when used in this clause 18;
- (b) "GST Act" means the A New Tax System (Goods and Services Tax) Act 1999 (Cwlth); and
- (c) each periodic or progressive component of a supply to which section 156-5(1) of the GST Act applies will be treated as though it is a separate supply.

19 Miscellaneous**19.1 Discretion in exercising rights**

A party may exercise a right or remedy or give or refuse its consent in any way it considers appropriate (including by imposing conditions), unless this deed expressly states otherwise.

19.2 Partial exercising of rights

If a party does not exercise a right or remedy fully or at a given time, the party may still exercise it later.

19.3 No liability for loss

A party is not liable for loss caused by the exercise or attempted exercise of, failure to exercise, or delay in exercising a right or remedy under this deed.

19.4 Approvals and consents

By giving its approval or consent a party does not make or give any warranty or representation as to any circumstance relating to the subject matter of the consent or approval.

19.5 Conflict of interest

The parties' rights and remedies under this deed may be exercised even if it involves a conflict of duty or a party has a personal interest in their exercise.

19.6 Remedies cumulative

The rights and remedies in this deed are in addition to other rights and remedies given by law independently of this deed.

19.7 Variation and waiver

A provision of this deed or a right created under it, may not be waived or varied except in writing, signed by the party or parties to be bound.

19.8 No merger

The warranties, undertakings and indemnities in this deed do not merge on the Implementation Date.

19.9 Indemnities

The indemnities in this deed are continuing obligations, independent from the other obligations of the parties under this deed and continue after this deed ends. It is not necessary for a party to incur expense or make payment before enforcing a right of indemnity under this deed.

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19.10 Enforceability

For the purpose of this deed:

- (a) the Target is taken to be acting as agent for, or on behalf of and for the benefit of all Target Indemnified Parties; and
- (b) the Acquirer is taken to be acting as agent for, or on behalf of and for the benefit of all Acquirer Indemnified Parties;

and all of those persons are to this extent taken to be parties to this deed.

19.11 Knowledge and belief

The parties agree that any statement made in this deed by a Target Person on the basis of their knowledge, information, belief or awareness, is made on the basis of matters that a Target Person:

- (a) is actually aware of; and
- (b) should reasonably be expected to be actually aware of having regard to their experience and their past and current position and responsibilities.

19.12 Release

Subject to section 199A of the Corporations Act, no party, and no officer, employee or director of a party, shall be liable for anything done or purported to be done in connection with the Scheme in good faith, but nothing in this clause shall exclude any liability which may arise from a fraudulent or grossly negligent act or omission on the part of such a person. Each party receives and holds the benefit of this release, to the extent that it relates to its officers, employees or directors, on behalf of them.

19.13 Further steps

Each party agrees, at its own expense, to do anything reasonable that any other party asks (such as obtaining consents, signing and producing documents and getting documents completed and signed):

- (a) to bind the party and any other person intended to be bound under this deed; or
- (b) to show whether the party is complying with this deed.

19.14 Construction

No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of, or seeks to rely on, this deed or any part of it.

19.15 Costs

Subject to clause 11 ("Reimbursement of Acquirer costs"), the parties agree to pay their own legal and other costs and expenses in connection with the preparation, execution and completion of this deed and other related documentation.

19.16 Entire agreement

This deed constitutes the entire agreement of the parties about its subject matter and supersedes all previous agreements, understandings and negotiations on that subject matter.

19.17 Assignment

A party may not assign or otherwise deal with its rights under this deed or allow any interest in them to arise or be varied in each case, without the consent of the other parties (except that the Acquirer may grant an Encumbrance in favour of MHA, or any of its Subsidiaries, over all or any of its rights under this deed).

19.18 No undisclosed principals or undisclosed trusts

Except as expressly stated in writing in this deed, no person enters into this deed as an agent for any other person or as trustee of any trust or on behalf or for the benefit of any other person.

19.19 No representation or reliance

Each party acknowledges that:

- (a) no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed;
- (b) it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this deed; and
- (c) clauses 19.19(a) and 19.19(b) above do not prejudice any rights a party may have in relation to information which had been filed by any other party with ASIC or ASX.

19.20 Governing law

This deed is governed by the law in force in the place specified in the Details. Each party submits to the non-exclusive jurisdiction of the courts of that place.

19.21 Counterparts

This deed may be executed in counterparts. All counterparts when taken together are to be taken to constitute one instrument.

19.22 Notification

Each party will promptly advise the other parties in writing if it becomes aware of any fact, matter or circumstance that constitutes or may constitute:

- (a) a breach of any of the representations and warranties given by it under this deed;
- (b) a Target Prescribed Event;
- (c) an event which results or may result in another party having a right to terminate this deed under clause 15.1; or
- (d) a breach by it of this deed.

EXECUTED as a deed

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

Scheme Implementation Deed

Schedule 1 - Target Prescribed Events

- (a) **(Conversion)** the Target, CIL or CAS converts all or any of its securities into a larger or smaller number of securities.
- (b) **(Reduction of share capital)** the Target, CIL or CAS resolves to reduce its share capital in any way or reclassifies, combines, splits or redeems or repurchases directly or indirectly any of its shares.
- (c) **(Buy-back)** the Target, CIL or CAS:
 - (i) enters into a buy-back agreement; or
 - (ii) resolves to approve the terms of a buy-back agreement under the Corporations Act.
- (d) **(Distribution)** other than the Permitted Dividends or otherwise than as agreed in connection with the Scheme, the Target, CIL or CAS makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie).
- (e) **(Issuing or granting securities or options)** the Target or any of its Subsidiaries:
 - (i) other than as part of refinancing, extending or rolling over its equipment or other facilities or term funding in the ordinary course, or pursuant to the QUS employee incentive scheme, issues new securities;
 - (ii) grants an option over its securities; or
 - (iii) agrees to make such an issue or grant such an option (including under any employment contract).
- (f) **(Convertible Securities or other instruments)** the Target or any of its Subsidiaries:
 - (i) issues securities or other instruments that (in each case) are convertible into equity or debt securities; or
 - (ii) agrees to issue securities or other instruments convertible into equity or debt securities (including under any employment contract).
- (g) **(Constitution)** the Target or any of its Subsidiaries adopts a new constitution or modifies or repeals its constitution or a provision of it.
- (h) **(Acquisitions, disposals or tenders)** the Target, any of its Subsidiaries:
 - (i) acquires or disposes of;
 - (ii) agrees to acquire or dispose of;

- (iii) offers, proposes, announces a bid or tenders for,
any business, assets, entity or undertaking of the Target Group, other than:
- (iv) in the ordinary course of business (including investments as part of the ordinary course of the insurance business); or
- (v) as part of the Transaction Costs.
- (i) **(Encumbrances)** other than as part of refinancing, extending or rolling over its equipment or other facilities or term funding in the ordinary course, the Target, any of its Subsidiaries creates, or agrees to create, any Encumbrance over the whole or a material or substantial part of its business or property.
- (j) **(Commitments and settlements)** except in the ordinary course of business, the Target or any of its Subsidiaries:
 - (i) enters into, amends or terminates any Material Contract, including any contract or commitment requiring payments by one or more members of the Target Group (separately or taken as a whole) or any other onerous or long term contract or commitment;
 - (ii) waives any material third party default;
 - (iii) accepts as a settlement or compromise of a material matter less than the full compensation due to the Target or a Subsidiary of the Target; or
 - (iv) becomes subject to a material claim
- (k) **(Insolvency)** the Target or any of its Subsidiaries becomes Insolvent.
- (l) **(Breach of law)** any member of the Target Group takes or omits to take action which would result in a material breach of law (resulting in costs, charges, interest, penalties, fines or expenses in excess of \$100,000).
- (m) **(Change in actuarial or accounting policy)** any member of the Target Group changes any actuarial policy or any accounting policy applied by them to report their financial position, without the consent of the Acquirer.

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

Scheme Implementation Deed

Schedule 2 - Conditions Precedent (clause 3.1 ("Conditions Precedent"))

Condition	Party entitled to benefit	Party responsible
1. Regulatory approvals		
Before 8.00am on the Second Court Date:	All	All
(a) (ASIC and ASX) ASIC and ASX have issued or provided (and not withdrawn, revoked or varied) such consents, waivers, modifications, and/or approvals or have done such other acts which are necessary or the parties agree are reasonably desirable to implement the Scheme. If such consents, waivers, modifications and/or approvals are subject to conditions those conditions must be acceptable to the Target and the Acquirer (each acting reasonably);		
(b) (approvals from Regulatory Authorities)	All	All
(i) all necessary approvals are provided in respect of the Scheme and Share and Business Acquisition Agreement (and the transactions contemplated by those) under the <i>Financial Sector (Shareholdings) Act 1998</i> (Cth); and		
(ii) all other consents, waivers and approvals of a Regulatory Authority which the Acquirer and the Target, acting reasonably, consider are necessary or desirable to implement the Scheme and the		

Condition	Party entitled to benefit	Party responsible
Share and Business Acquisition Agreement are obtained.		
If such consents, waivers, notices of no objection and/or approvals are subject to conditions those conditions must be acceptable to the Target and the Acquirer (each acting reasonably); and		
(c) (Court orders) no Court or other court of competent jurisdiction or Regulatory Authority has issued or taken steps to issue an order, temporary restraining order, preliminary or permanent injunction, decree or ruling or taken any action enjoining, restraining or otherwise imposing a legal restraint or prohibition preventing the implementation of any material aspect of the Transaction and no such order, decree, ruling, other action or refusal is in effect.	All	All
2. Consents	Acquirer	All
Consent to the Transaction, either unconditionally or on terms reasonably satisfactory to the Acquirer, or where no consent is required under the terms of the relevant agreement, the relevant counterparty does not indicate in writing that it intends to terminate the agreement, obtained from:		
(a) NSW Self Insurance Corporation under the Insurance Agency Agreement for Home Warranty Insurance Fund between NSW Self Insurance Corporation and CIL dated 4 January 2011, as amended;		
(b) ACE Insurance Limited (ABN 23 001 642 020) under: <ul style="list-style-type: none"> the Mansions Master Binder Agreement between ACE Insurance Limited and CAS t/as Mansions of Australia dated (undated); 		

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

Condition	Party entitled to benefit	Party responsible
and		
<ul style="list-style-type: none"> the Insurance Distribution Agreement between ACE Insurance Limited and CAS dated (undated); 		
(c) Australian Unity Personal Financial Services Limited (ABN 26 098 725 145) under the Distribution Agreement between Australian Unity Personal Financial Services Limited, CIL and CAS dated 13 November 2013;		
(d) IUA agency agreement to be entered into between Lloyds (ProSight) and CAS;		
(e) South Australian Government Financing Authority under the Calliden BII Quota Share Reinsurance Agreement between South Australian Government Financing Authority and CIL dated 30 August 2013;		
(f) State of Western Australia through its Department of Commerce under the Calliden HII Quota Share Reinsurance Agreement between State of Western Australia through its Department of Commerce and CIL dated 31 October 2013;		
(g) the underwriter relevant to the (QUS) Agency Agreement;		
(h) Queensland Broker Holdings Pty Ltd under the QUS Shareholders Deed between Queensland Broker Holdings Pty Ltd, CIL and QUS dated 4 December 2013;		
(i) AXE Group Pty Ltd under: <ul style="list-style-type: none"> the Axelerator Production Server Licence Agreement between Axe Group Pty Limited and CIL (undated); the Axelerator Studio Licence Agreement between Axe Group Pty 		

Condition	Party entitled to benefit	Party responsible
	Limited and CIL (undated);	
	<ul style="list-style-type: none"> the Axelerator Support Service Licence Agreement between Axe Group Pty Limited and CIL (undated); the Axelerator UAT/Training Server Licence Agreement between Axe Group Pty Limited and CIL (undated); 	
(j)	<p>Sirius Financial Systems plc (registered in England and Wales (company number 1792078)) under:</p> <ul style="list-style-type: none"> the Sirius Modular Agreement between Sirius Financial Systems plc and the Target dated 14 March 2005; and the Sirius Service Level Agreement between Sirius Financial Systems plc and the Target dated 14 March 2005; 	
(k)	Ebix Exchange Pty Ltd (ABN 79 054 644 772) under the Ebix Services Agreement between Ebix Exchange Pty Ltd and the Target dated 8 April 2008;	
(l)	Innovation Group (Australia) Pty Limited under the Contract and Service Level Agreement dated 21 July 2011 between CIL and Innovation Group (Australia) Pty Limited, as amended; ;	
(m)	BA Insurance Systems Pty Limited (ABN 54 058 986 799) under the Software Licence and Support Agreement dated 11 March 2003 between BA Insurance Systems Pty Limited and Dawes Motor Underwriting Group (ABN 18 050 289 506);	
(n)	Townwood Pty Limited (ABN 99 347 104 909) under the lease in relation to Level 7, Innovation Place, 100 Arthur	

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

Condition	Party entitled to benefit	Party responsible
<p>Street, North Sydney, NSW dated 5 April 2013 between the Target and Townwood Pty Limited; and</p> <p>(o) The Commonwealth of Australia as represented by Fair Work Commission (ABN 93 614 579 199), the Trust Company Limited (ACN 004 027 749) and Bieson Pty Limited (ACN 110 465 168) under the sublease in relation to Level 9, 11 Exhibition Street, Melbourne between</p> <p>(p) the Commonwealth of Australia as represented by Fair Work Commission (ABN 93 614 579 199), the Target, the Trust Company Limited (ACN 004 027 749) and Bieson Pty Limited (ACN 110 465 168) (undated).</p>		
<p>3. Independent Expert</p> <p>The Independent Expert concludes in the Independent Expert's Report that the Scheme is in the best interest of the Target Shareholders..</p>	Target	Target
<p>4. Scheme approval</p> <p>The Target Shareholders approve the Scheme by the requisite majorities in accordance with the Corporations Act.</p>	Cannot be waived	Target
<p>5. Court approval</p> <p>The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.</p>	Cannot be waived	Target
<p>6. No Target Prescribed Event</p> <p>No Target Prescribed Event occurs between the date of this deed and 8.00am on the Second Court Date.</p>	Acquirer	Target
<p>7. No Target Material Adverse Change</p> <p>No Target Material Adverse Change occurs between the date of this deed and 8.00am on the Second Court Date.</p>	Acquirer	Target
<p>8. Target representations and</p>	Acquirer	Target

Condition	Party entitled to benefit	Party responsible
warranties		
The Target's representations and warranties set out in Schedule 6 are true and correct in all material respects as at the date of this deed and as at 8.00am on the Second Court Date.		
9. Acquirer representations and warranties	Target	Acquirer
The Acquirer's representations and warranties set out in Schedule 7 are true and correct in all material respects as at the date of this deed and as at 8.00am on the Second Court Date.		
10. Target Group Board changes	Acquirer	Target
Before 8.00am on the Second Court Date all required regulatory approvals (if any) are obtained to permit the steps referred to in paragraphs (a), (b) and (c) of clause 8.5 ("Appointment and retirement of Target Directors").		
11. Share and Business Acquisition Agreement	Acquirer	Acquirer
The Share and Business Acquisition Agreement not having been terminated.		
12. Deed Poll - Acquirer	Target	Acquirer
The Deed Poll having been issued by the Acquirer.		

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

Scheme Implementation Deed

Schedule 3 - Timetable (clause 5.1 (“General obligations”))

Event	Date
Lodge Scheme Booklet with ASIC	Early October 2014
Application in respect of the Court hearing to be held on the First Court Date, filed with the Court, served on ASIC and delivered to ASX	Early October 2014
First Court Date	Mid to late October 2014
Printing and despatch of Scheme Booklet	Late October 2014
Second Court Date	Early December 2014
Lodge Court order with ASIC (Effective Date)	Early December 2014
Record Date	Mid-December 2014
Implementation Date	Mid-December 2014

Scheme Implementation Deed

Schedule 4 - Target's Obligations (clause 6.1 ("Target's obligations"))

- 1 **(Target Information)** ensure that the Target Information included in the Scheme Booklet complies with the Corporations Act, the Corporations Regulations, the Listing Rules and ASIC Regulatory Guide 60.
- 2 **(Further Target Information)** provide to the Acquirer and Target Shareholders such further or new Target Information as may arise after the Scheme Booklet has been despatched until the date of the Scheme Meeting as may be necessary to ensure that the Target Information contained in the Scheme Booklet is not, having regard to applicable disclosure requirements, false, misleading or deceptive in any material respect (including because of any material omission) and does not omit any information required by law.
- 3 **(Independent Expert)** promptly appoint the Independent Expert and provide any assistance and information reasonably requested by the Independent Expert to enable it to prepare the Independent Expert's Report for the Scheme Booklet.
- 4 **(Provide a copy of the Independent Expert's Report)** on receipt, provide the Acquirer with a copy of advanced drafts of the Independent Expert's Report received by the Target from the Independent Expert for review for factual accuracy.
- 5 **(Promote merits of the Transaction)** participate in and ensure that the managing director and a non-executive director of the Target participates in efforts reasonably requested by the Acquirer to promote the merits of the Transaction, including meeting with key Target Shareholders at the reasonable request of the Acquirer, unless and until the recommendations of the Target Directors contemplated by clauses 6.3(a) or 6.3(b) are withdrawn or adversely modified because of a Superior Proposal or because the Independent Expert concludes that the Scheme is not in the best interests of the Target Shareholders.
- 6 **(Registry details)** subject to the terms of the Scheme:
 - (a) provide all necessary information about the Scheme Participants to the Acquirer which the Acquirer requires in order to assist the Acquirer to solicit votes at the Scheme Meeting;
 - (b) provide all necessary directions to the Registry to promptly provide any information that the Acquirer reasonably requests in relation to the Register, including any sub-register, and, where requested by the Acquirer, the Target must procure such information to be provided to the Acquirer in such electronic form as is reasonably requested by the Acquirer; and
 - (c) undertake beneficial securityholder analysis at the request of the Acquirer, and promptly exercise its powers under section 672A of the Corporations Act if requested to do so by the Acquirer, acting reasonably.
- 7 **(Section 411(17)(b) statement)** apply to ASIC for the production of a statement pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme.

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

- 8 **(Court application and representation)** apply to the Court for an order under section 411(1) of the Corporations Act directing Target to convene the Scheme Meeting and engage counsel reasonably experienced in schemes of arrangement to represent Target in all Court proceedings related to the Scheme and provide drafts and consult with the Acquirer in relation to the content of any document required for the purpose of the Scheme (including originating process, affidavits, submissions and draft minutes of Court orders) and take into account all reasonable comments provided for and on behalf of the Acquirer in relation to such documents.
- 9 **(Registration of explanatory statement)** request ASIC to register the explanatory statement included in the Scheme Booklet in relation to the Scheme in accordance with section 412(6) of the Corporations Act.
- 10 **(Send Scheme Booklet)** send the Scheme Booklet to Target Shareholders as soon as practicable after the Court orders the Target to convene the Scheme Meeting and otherwise substantially in accordance with the Timetable.
- 11 **(Resolutions)** convene the Scheme Meeting in accordance with any such orders made by the Court, and seek the approval of the Target Shareholders for the Scheme Resolution and, for this purpose, the Target Directors must participate in reasonable efforts to promote the merits of the Scheme, including meeting with key Target Shareholders at the reasonable request of the Acquirer.
- 12 **(Proxy reports)** request the Registry to report to it and the Acquirer and their Representatives on the status of proxy forms received by the Registry for the Resolutions, at 10 Business Days before the Scheme Meeting, at each subsequent Business Day up to the deadline for receipt of proxy forms and at such deadline. Provide to the Acquirer such other information as it may receive concerning the voting intentions of the Target Shareholders.
- 13 **(Court order)** apply to the Court for an order approving the Scheme in accordance with sections 411(4)(b) and 411(6) of the Corporations Act (and, if relevant and the Acquirer so requests, an order in accordance with section 411(4)(a)(ii)(A) of the Corporations Act dispensing with the need for the Resolution in relation to the Scheme to be passed by a majority in number of the members present and voting (either in person or by proxy)).
- 14 **(Certificate)** provide the Court by 8am on the Second Court Date with a certificate confirming (in respect of matters within its knowledge):
 - (a) whether all the conditions precedent as set out in Schedule 2 (other than the condition relating to Court approval of the Scheme - item 3) have been satisfied or waived in accordance with the terms of this deed; and
 - (b) confirming that there has been no Target Material Adverse Change and setting out calculations of the metrics referred to in paragraphs (a) to (c) inclusive of the definition of Target Material Adverse Change.
- 15 **(Lodge)** on the Second Court Date lodge with ASIC an office copy of any such Court order approving the Scheme as approved by the Target Shareholders at the Scheme Meeting in accordance with section 411(10) of the Corporations Act.
- 16 **(Register information)** close the Register as at 7.00pm on the Record Date.
- 17 **(Registration)** register all transfers of the Target Shares to the Acquirer on the Implementation Date.
- 18 **(Listing)** take all reasonable steps to maintain the Target's listing on ASX, notwithstanding any suspension of the quotation of the Target Shares, up to and

including the Implementation Date, including making appropriate applications to ASX and ASIC.

- 19 **(Compliance with laws)** use its best endeavours to do everything reasonably within its power to ensure that the transactions contemplated by this deed are effected in accordance with all laws and regulations applicable in relation to the Scheme.
- 20 **(Suspension of incentive plans)** with effect from date of this deed, suspend all of its executive and employee incentive plans and any other plans that will or could result in securities in the Target being issued to any person.
- 21 **(Termination of incentive plans)** subject to Court approval of the Scheme, but with effect from the Implementation Date or such later date agreed by the parties acting reasonably, terminate all of its executive and employee incentive plans and any other plans (if any) that will or could result in securities in the Target being issued to any person.
- 22 **(Other steps)** do all other things necessary to give effect to the Scheme and the orders of the Court approving the Scheme.
- 23 **(Adviser fees)** on reasonable written request from the Acquirer, provide the Acquirer with details of fees and disbursements incurred by the Target, with its financial and legal advisers.
- 24 **(Consents, approvals and confirmations)** co-operate with the Acquirer and provide reasonable assistance in connection with obtaining consents, approvals and confirmations as may be required by the Acquirer its nominated entities in relation to, or under or in connection with this deed and the transactions contemplated by it, including applications for regulatory approval (including foreign), and any other assistance reasonably requested by the Acquirer or its nominated entities).
- 25 **(Cut-Off Data Tape)** deliver to the Acquirer the Cut-Off Data Tape at or about 10.00am on the Implementation Date, prior to the payment of the Scheme Consideration on the Implementation Date.
- 26 **(Data Room)** deliver a complete copy of the Data Room to the Acquirer on or by the Implementation Date.
- 27 **(NTA calculation)** prior to the Scheme Meeting, Target must undertake a preliminary calculation of the NTA of CIL (as at the time immediately following implementation of the Scheme and following payment of the Additional Dividend and any other dividends which Steadfast and MHA may decide to agree to).

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

Scheme Implementation Deed

Schedule 5 - Acquirer's Obligations (clause 6.2 ("Acquirer's obligations"))

- 1 **(Acquirer Information)** prepare and promptly provide to the Target for inclusion in the Scheme Booklet such Acquirer Information as the Target reasonably requires to prepare and issue the Scheme Booklet (including any information required under the Corporations Act, Corporations Regulations, the Listing Rules or ASIC Regulatory Guide 60 and information regarding sources of funding for the Scheme Consideration).
- 2 **(Review of Scheme Booklet)** review the drafts of the Scheme Booklet prepared by the Target and provide comments as soon as practicable.
- 3 **(Further Acquirer Information)** promptly provide to the Target such further or new Acquirer Information as may arise after the Scheme Booklet has been sent until the date of the Scheme Meeting as may be necessary to ensure that the Acquirer Information contained in the Scheme Booklet is not, having regard to applicable disclosure requirements, false, misleading or deceptive in any material respect (including because of any material omission) and does not omit any information required by law.
- 4 **(Independent Expert information)** provide any assistance or information reasonably requested by the Independent Expert in connection with the preparation of the Independent Expert's report to be included in the Scheme Booklet.
- 5 **(Representation)** procure that it is represented by experienced counsel at the Court hearings convened for the purposes of section 411(4)(b) of the Corporations Act, at which, through its counsel the Acquirer must undertake (if requested by the Court) to do all such things and take all such steps within its power as may be necessary in order to ensure the fulfilment of its obligations under this deed and the Scheme.
- 6 **(Certificate)** provide the Court on the Second Court Date with a certificate confirming (in respect of matters within its knowledge) whether all the conditions precedent as set out in Schedule 2 (other than the condition relating to Court approval of the Scheme - item 3) have been satisfied or waived in accordance with the terms of this deed.
- 7 **(Deed Poll)** prior to the Scheme Booklet being sent to the Target Shareholders, sign and deliver the Deed Poll.
- 8 **(Share transfer)** if the Scheme becomes Effective, accept a transfer of the Target Shares as contemplated by clause 4.1(a) and the Scheme.
- 9 **(Consideration)** if the Scheme becomes Effective, procure the payment of the Scheme Consideration to the Target in the manner and amount contemplated by clause 4.3(a) and the Deed Poll.
- 10 **(Compliance with laws)** use its best endeavours to do everything reasonably within its power to ensure that the transactions contemplated by this deed are effected in accordance with all laws and regulations applicable in relation to the Scheme.

- 11 **(Other steps)** do all other things necessary to give effect to the Scheme and the orders of the Court approving the Scheme.

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

Scheme Implementation Deed

Schedule 6 - Target's representations and warranties (clause 12.1 ("Target's representations and warranties"))

- 1 **(Incorporation)** it is a valid existing corporation registered under the laws of its place of incorporation.
- 2 **(Execution)** the execution and delivery of this deed has been properly authorised by all necessary corporate action of the Target.
- 3 **(Corporate power)** it has full corporate power and lawful authority to execute and deliver this deed and to consummate and perform or cause to be performed its obligations under this deed in accordance with its terms.
- 4 **(Binding obligations)** (subject to laws generally affecting creditors' rights and the principles of equity) this deed constitutes legal, valid and binding obligations on it.
- 5 **(Target Information)** the Target Information provided in accordance with this deed and included in the Scheme Booklet, as at the date of the Scheme Booklet and as at 8.00am on the Second Court Date, will not contain any material statement which is misleading or deceptive in any material respect nor contain any material omission having regard to applicable disclosure requirements and will comply in all material respects with the requirements of the Corporations Act, the Corporations Regulations, the Listing Rules and ASIC Regulatory Guide 60.
- 6 **(Due diligence)** to the best of the knowledge of each Target Director as at the date of this deed, all Due Diligence Materials were prepared in good faith, are true and correct in all material respects and are not misleading in any material respect.
- 7 **(Reliance)** as at the date of the Scheme Booklet and as at 8.00am on the Second Court Date, the Target Information contained in the Scheme Booklet will be included in good faith and on the understanding that the Acquirer and its directors will rely on that information for the purposes of considering and approving the Acquirer Information in the Scheme Booklet before it is finalised, approving the entry into the Deed Poll and implementing the transactions contemplated by this deed.
- 8 **(Further information)** the Target will, as a continuing obligation, provide to the Acquirer all such further or new information which may arise after the date of the Scheme Booklet until the date of the Scheme Meeting which may be necessary to ensure that there would be no breach of item 5 of this schedule if it applied as at the date upon which that information arose.
- 9 **(Continuous disclosure)** as at the date of this deed, as at the date of the Independent Expert's report and as at 8.00am on the Second Court Date the Target is not in breach of its continuous disclosure obligations under the Corporations Act and the Listing Rules in any material respect and it is not relying on the carve out in Listing Rule 3.1A to withhold any material information from disclosure, other than the information to be disclosed on the signing of this deed.

- 10 **(Periodic disclosure)** the periodic financial disclosures made by the Target in its annual financial report and half-yearly financial report were not misleading or deceptive in any material respect when made and are prepared in accordance with the Corporations Act and with all relevant Accounting Standards in all material respects and, as to the annual financial report, give a true and fair view of the financial position and performance of the Target Group as at the date they were made.
- 11 **(Opinions)** any statement of opinion or belief contained in the Target Information is honestly held and there are reasonable grounds for holding the opinion or belief.
- 12 **(Provision of information to the Independent Expert)** as at the date of the Independent Expert's report and as at 8.00am on the Second Court Date, all information provided by or on behalf of the Target to the Independent Expert to enable the Independent Expert's report to be included in the Scheme Booklet to be prepared and completed will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purpose of preparing the Independent Expert's report.
- 13 **(Compliance)** it and its Subsidiaries have complied in all material respects with all Australian and foreign laws and regulations applicable to them and material orders of Australian and foreign governmental agencies having jurisdiction over them and have all material licenses, permits and franchises necessary for them to conduct their respective businesses as presently being conducted.
- 14 **(Insolvency)** no member of the Target Group is Insolvent.
- 15 **(No default - Group)** neither it nor any of its Subsidiaries is in material default under any document, agreement or instrument binding on it or its assets nor has anything occurred which is or would with the giving of notice or lapse of time constitute an event of default, prepayment event or similar event, or give another party thereto a termination right or right to accelerate any right or obligation, under any such document or agreement with such an effect, and to the best of the knowledge of each Target Person, no other party to any such document, agreement or instrument is in material breach thereof or material default thereunder, where such breach or default will, or would reasonably be likely to have a material adverse effect on the Target.
- 16 **(Securities)** the Target's issued securities as at the date of this deed are 226,683,914 fully paid ordinary shares quoted on ASX, and the Target has not issued, or agreed to issue, any other securities or instruments which are still outstanding and which may convert into Target Shares or any other securities in the Target.
- 17 **(No Encumbrances)** there is no Encumbrance over all or any of its assets or revenues, other than as disclosed in the Due Diligence Materials.
- 18 **(CIL Shares and on-sale assets)**
- (a) all of the issued shares in CIL (the **CIL Shares**) have been validly allotted and are fully paid and no moneys are owing in respect of them.
 - (b) as at the date of this deed, there are 54,500,000 CIL Shares and they represent all of the shares issued in the capital of CIL.
 - (c) the Target is the sole legal and beneficial owner of all the CIL Shares.
 - (d) subject to Regulatory Approvals and to the best of the Target's belief, there is no restriction on the sale or transfer of the Target Group assets contemplated in the Share and Business Acquisition Agreement (**Sale**

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

- Assets**) to the MHA Group except, in the case of the CIL Shares, for the requirement to present the relevant share certificates and the requirement to pay any applicable stamp duty on the transfer before the registration of the transfers of the CIL Shares.
- (e) the Target Group has good and marketable title to and are the legal and beneficial owners of the Sale Assets free from all Encumbrances and there is no agreement to give or create any Encumbrance over the Sale Assets.
 - (f) the Target Group has full power and authority to transfer to the MHA Group good legal and equitable title to the Sale Assets free from all Encumbrances.
 - (g) to the best of the Target's belief, the legal and beneficial ownership of all of the Sale Assets will upon completion of the transfer of assets under the Share and Business Acquisition Agreement vest in the relevant MHA Group entities free from any Encumbrances.
- 19 **(Current Actions)** neither the Target nor any of its Subsidiaries is a party to or the subject of any Action, other than in the ordinary course of business, or the subject of any material ruling, judgement, order or decree by any Regulatory Authority or any other person, the amount of which is more than \$250,000.
- 20 **(Pending, threatened or anticipated Actions)** to the best of the knowledge of each Target Person, there is no Action, judgment, order or decree pending, threatened or anticipated, against the Target or any of its Subsidiaries, other than Actions in the ordinary course of business, the amount of which is more than \$250,000.
- 21 **(Benefit Plans)**
- (a) the Due Diligence Materials include a list of all Benefit Plans and complete and accurate copies of all such Benefit Plans.
 - (b) each Benefit Plan, other than any redundancy plan, has been funded and maintained, in form and operation, in accordance with its terms, applicable labour agreements and applicable law in all material respects.
 - (c) neither the Target nor any of its Subsidiaries maintains, contributes to or has any liability with respect to any defined benefit pension plan, defined benefit superannuation fund or any plan or arrangement that requires (or could require) the Target or its Subsidiaries to provide post-employment welfare benefits (other than as required under applicable laws).
 - (d) no Actions are pending or threatened with respect to any Benefit Plan.
 - (e) except as otherwise agreed between the parties, the consummation of the transactions contemplated by this deed will not accelerate the time of the payment or vesting of, or increase the amount of, or result in the forfeiture of compensation or benefits under any Benefit Plan, other than any redundancy plan.
- 22 **(Disclosure)** the Due Diligence Materials include all material information requested in writing by the Acquirer, MHA or their respective Representatives in connection with the transactions contemplated by this deed which is actually known to the Target Directors as at the date of this deed and has not intentionally modified or withheld any information from the Acquirer or MHA.

- 23 **(Change of control provisions)** to the best of the Target's belief, the Due Diligence Materials include all Material Contracts which result in, or could result in:
- (a) any monies borrowed by any member of the Target Group being or becoming repayable or being capable of being declared repayable immediately or earlier than the repayment date stated in such agreement;
 - (b) any such agreement being terminated or modified or any action being taken or arising thereunder;
 - (c) the interest of any member of the Target Group in any firm, joint venture, trust, corporation or other entity (or any arrangements relating to such interest) being terminated or modified; or
 - (d) the business of any member of the Target Group with any other person being adversely affected,
 - (e) as a result of the Target entering into this deed or the transactions contemplated by it including the acquisition of the Target Shares by the Acquirer.
- 24 **(Cut-Off Data File)** the Cut-Off Data File will be prepared in good faith, and will be a true and correct record of the Due Diligence Materials.

ANNEXURE B

SCHEME IMPLEMENTATION DEED

(continued)

Scheme Implementation Deed

Schedule 7 - Acquirer's representations and warranties (clause 12.4 ("Acquirer's representations and warranties"))

The representations and warranties set out in this Schedule 7 are given by the Acquirer except where otherwise expressly stated.

- 1 **(Incorporation)** it is a valid existing corporation registered under the laws of its place of incorporation.
- 2 **(Execution)** the execution and delivery of this deed has been properly authorised by all necessary corporate action of the Acquirer.
- 3 **(Corporate power)** it has full corporate power and lawful authority to execute and deliver this deed and to consummate and perform or cause to be performed its obligations under this deed in accordance with its terms.
- 4 **(Binding obligations)** (subject to laws generally affecting creditors' rights and the principles of equity) this deed constitutes legal, valid and binding obligations on it.
- 5 **(Reliance)** as at the date of the Scheme Booklet and as at 8.00am on the Second Court Date, the Acquirer Information provided to the Target for inclusion in the Scheme Booklet will be provided in good faith and on the understanding that the Target and its directors will rely on that information for the purposes of preparing the Scheme Booklet and proposing and implementing the transactions contemplated by this deed in accordance with the Corporations Act.
- 6 **(Acquirer Information)** the Acquirer Information provided in accordance with this deed and included in the Scheme Booklet, as at the date of the Scheme Booklet and as at 8.00am on the Second Court Date, will not contain any material statement which is misleading or deceptive nor contain any material omission having regard to applicable disclosure requirements and will comply in all material respects with the requirements of the Corporations Act, the Corporations Regulations, the Listing Rules and ASIC Regulatory Guide 60.
- 7 **(Further information)** the Acquirer will, as a continuing obligation, provide to the Target all such further or new information which may arise after the date of the Scheme Booklet until the date of the Scheme Meeting which may be necessary to ensure that there would be no breach of item 6 of this Schedule if it applied as at the date on which that information arose.
- 8 **(Opinions)** any statement of opinion or belief contained in the Acquirer Information is honestly held and there are reasonable grounds for holding the opinion or belief.
- 9 **(Provision of information to Independent Expert)** as at the date of the Independent Expert's report and as at 8.00am on the Second Court Date, all information provided by or on behalf of the Acquirer to the Independent Expert to enable the Independent Expert's report to be included in the Scheme Booklet to be prepared and completed will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purpose of preparing the Independent Expert's report.

- 10 **(Funding)** on and from the date of this deed and at all times before 8.00am on the Second Court Date the Acquirer has reasonable grounds for believing it will have available to it, sufficient cash amounts (whether from internal cash resources or external funding arrangements or a combination of both) to satisfy its obligation to pay the Scheme Consideration in accordance with the obligations under this deed, the Deed Poll and the Scheme and to provide the Target with funding in accordance with clause 4.3(a) of this deed.

ANNEXURE B
SCHEME IMPLEMENTATION DEED
(continued)

Scheme Implementation Deed

Annexure A - Scheme (clause 1.1 (“Definitions”))

Please refer to Annexure C of the Scheme Booklet.

Scheme Implementation Deed

Annexure B - Deed Poll (clause 1.1 ("Definitions"))

Please refer to Annexure D of the Scheme Booklet.

ANNEXURE C SCHEME OF ARRANGEMENT



Scheme of Arrangement

Dated 2014

Calliden Group Limited (ACN 061 215 601) ("**Target**")

Each person registered as a holder of issued fully paid ordinary shares in the capital of the Target as at 7.00pm on the Record Date ("**Scheme Participants**")

King & Wood Mallesons

Level 61
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia
T +61 2 9296 2000
F +61 2 9296 3999
DX 113 Sydney
www.kwm.com
02-5507-3076

Scheme of Arrangement

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SCHEME OF ARRANGEMENT

(continued)

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Scheme of Arrangement

Details

Parties	Target and Scheme Participants	
Target	Name	Calliden Group Limited
	ACN	061 215 601
	Incorporated in	New South Wales
	Address	Level 7, 100 Arthur Street North Sydney NSW 2060 Australia
	Telephone	+61 2 9551 1111
	Fax	+61 2 9551 1155
	Attention	Managing Director
Scheme Participants	Name	Each person registered as a holder of fully paid ordinary shares in the Target as at 7.00pm on the Record Date
Governing law	New South Wales, Australia	

ANNEXURE C

SCHEME OF ARRANGEMENT

(continued)

General terms

1 Definitions and interpretation

1.1 Definitions

In this Scheme:

ACCC means the Australian Competition and Consumer Commission.

Acquirer means Steadfast Group Ltd (ACN 073 659 677).

Additional Dividend means a franked dividend of five cents per Target Share which the Target is permitted to pay on the Implementation Date, immediately prior to implementation of the Scheme.

APRA means the Australian Prudential Regulation Authority.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691), Australian Securities Exchange or the Australian Stock Exchange, as appropriate.

Australian Treasurer means the current holder of the office of Treasurer of the Commonwealth of Australia.

Business Day means a day:

- that is a business day as defined in the Listing Rules;
- That is not a public holiday in Sydney, Australia; and
- On which banks are open for general banking business in Sydney, Australia.

CHESS means the Clearing House Electronic Subregister System operated by ASX Clear Pty Limited (ABN 48 001 314 503) and ASX Settlement Pty Limited (ABN 49 008 504 532).

Corporations Act means the Corporations Act 2001 (Cwlth).

Court means the Federal Court of Australia (Sydney registry), or such other court of competent jurisdiction under the Corporations Act agreed in writing by the parties to the Scheme Implementation Deed.

Deed Poll means the deed poll executed by the Acquirer substantially in the form of Annexure C of the Scheme Implementation Deed or as otherwise agreed by the Acquirer and the Target under which the Acquirer covenants in favour of each Scheme Participant to perform its obligations under this Scheme including its obligations to pay the Scheme Consideration.

Details means the section of this Scheme headed "Details".

Effective means the coming into effect, pursuant to 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 this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date means the date on which the Scheme becomes Effective.

Encumbrance means any:

- (a) 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 (2) of the Personal Property Securities Act 2009 (Cwlth); or
- (b) right, interest or arrangement which has the effect of giving another person a preference, priority or advantage over creditors including any right of set-off; or
- (c) right that a person (other than the owner) has to remove something from land (known as a profit à prendre), easement, public right of way, restrictive or positive covenant, lease, or licence to use or occupy; or
- (d) third party right or interest or any right arising as a consequence of the enforcement of a judgment,

or any agreement to create any of them or allow them to exist.

End Date means the date which is six months from the date of the Scheme Implementation Deed or such other date as is agreed by the Acquirer and the Target.

Implementation Date means:

- (a) the fifth Business Day following the Record Date; or
- (b) such other date as is agreed by the Acquirer and the Target.

Interim Dividend means a fully franked dividend of one cent per Target Share which the Target is permitted to pay prior to implementation of the Scheme, in relation to the period up to 30 June 2014.

Listing Rules means the Listing Rules of the ASX.

MHA means Munich Holdings of Australasia Pty Limited (ACN 000 159 651).

Permitted Dividends means the Additional Dividend and the Interim Dividend.

Record Date means 7.00pm on the fifth Business Day following the Effective Date or such other date (after the Effective Date) as the Target and the Acquirer agree.

Register means the register of members of the Target maintained by or on behalf of the Target in accordance with section 168(1) of the Corporations Act and **Registry** has a corresponding meaning.

Registered Address means, in relation to a Target Shareholder, the address shown in the Register.

Regulatory Authority includes:

- (a) ACCC;
- (b) APRA;
- (c) ASX;

ANNEXURE C

SCHEME OF ARRANGEMENT

(continued)

- (d) ASIC;
- (e) the Australian Treasurer;
- (f) a government or governmental, semi-governmental or judicial entity or authority;
- (g) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (h) any regulatory organisation established under statute.

Related Body Corporate has the meaning it has in the Corporations Act.

Rights means all accretions, rights or benefits of whatever kind attaching to or arising from the Target Shares directly or indirectly after the date of the Scheme Implementation Deed, including all dividends or other distributions and all rights to receive any dividends or other distributions, or to receive or subscribe for shares or other securities, which are declared, paid or made by the Target, but excludes the Permitted Dividends.

Scheme means this scheme of arrangement between the Target and Scheme Participants under which all of the Scheme Shares will be transferred to the Acquirer under Part 5.1 of the Corporations Act as described in clause 6 of this Scheme, in consideration for the Scheme Consideration, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act.

Scheme Consideration means a cash payment of \$0.4150 for each Scheme Share less the amount of any dividend or distribution declared or paid by the Target on or after the date of this deed (for avoidance of doubt, other than the Permitted Dividends), in accordance with the terms of the Scheme implementation Deed and the terms of this Scheme.

Scheme Implementation Deed means the scheme implementation deed dated on or about the date of this document between the Target and the Acquirer under which, amongst other things, the Target has agreed to propose this Scheme to the Target Shareholders, and each of the Acquirer and the Target has agreed to take certain steps to give effect to this Scheme.

Scheme Meeting means the meeting of the Target Shareholders, ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act at which the Target Shareholders will vote on this Scheme.

Scheme Participant means each person who is a Target Shareholder as at the Record Date.

Scheme Share means a Target Share held by a Scheme Participant as at the Record Date and, for the avoidance of doubt, includes any Target Shares issued on or before the Record Date.

Second Court Date means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

Share Scheme Transfer means, for each Scheme Participant, a duly completed and executed proper instrument of transfer of the Scheme Shares held by that Scheme Participant for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all Scheme Shares.

Subsidiary has the meaning it has in the Corporations Act.

Target has the meaning given in the Details.

Target Group means the Target and its Subsidiaries. **Target Share** means a fully paid ordinary share in the capital of the Target, together with all Rights attached to that share.

Target Shareholder means each person registered in the Register as a holder of Target Shares.

Trust Account means the trust account operated by or on behalf of the Target to hold the Scheme Consideration on trust for the purpose of paying the Scheme Consideration to the Scheme Participants in accordance with clause 6.3 of this Scheme.

1.2 Reference to certain general terms

Unless the contrary intention appears, a reference in this Scheme to:

- (a) **(variations or replacement)** a document, agreement or instrument is a reference to that document, agreement or instrument as amended, consolidated, supplemented, novated or replaced;
- (b) **(clauses, annexures and schedules)** a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this Scheme;
- (c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (d) **(law)** law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- (e) **(singular includes plural)** the singular includes the plural and vice versa;
- (f) **(party)** a party means a party to this Scheme;
- (g) **(person)** the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Regulatory Authority;
- (h) **(executors, administrators, successors)** a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) **(references to a group of persons)** a group or persons or things is a reference to any two or more of them jointly and to each of them individually;
- (j) **(dollars)** Australian dollars, dollars, A\$ or \$ is a reference to the lawful currency of Australia;
- (k) **(calculation of time)** a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;
- (l) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;

ANNEXURE C

SCHEME OF ARRANGEMENT

(continued)

(m) **(meaning not limited)** the words “include”, “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind; and

(n) **(time of day)** time is a reference to Sydney time.

1.3 Next Day

If an act under this deed to be done by a party on or by a given day is done after 5.30pm on that day, it is taken to be done on the next day.

1.4 Next Business Day

If an event must occur on a stipulated day which is not a Business Day then the stipulated day will be taken to be the next Business Day.

1.5 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this Scheme.

2 Preliminary

2.1 Target

The Target is:

- (a) a public company limited by shares;
- (b) incorporated in New South Wales; and
- (c) admitted to the official list of the ASX and Target Shares are officially quoted on the stock market conducted by ASX.

As at 27 August 2014, the Target’s issued securities were 226,683,914 Target Shares.

2.2 Acquirer

The Acquirer is:

- (a) a public company limited by shares;
- (b) incorporated in New South Wales; and
- (c) admitted to the official list of the ASX and the fully paid ordinary shares in the capital of it are officially quoted on the stock market conducted by ASX.

2.3 If this Scheme becomes Effective

If this Scheme becomes Effective:

- (a) in consideration of the transfer of each Scheme Share to the Acquirer, the Target will procure the Acquirer to provide the Scheme Consideration to the Target on behalf of each Scheme Participant in accordance with the terms of this Scheme;
- (b) all Scheme Shares will be transferred to the Acquirer on the Implementation Date;

- (c) the Target will enter the name of the Acquirer in the Register in respect of all Scheme Shares transferred to the Acquirer in accordance with the terms of this Scheme; and
- (d) the retirement and appointment of directors to the Target (and each other member of the Target Group) in accordance with clause 8.5 of the Scheme Implementation Deed will take effect.

2.4 Scheme Implementation Deed

The Target and the Acquirer have agreed by executing the Scheme Implementation Deed to implement the terms of this Scheme.

2.5 Deed Poll

The Acquirer has executed the Deed Poll for the purpose of covenanting in favour of the Scheme Participants to perform (or procure the performance of) its obligations as contemplated by this Scheme, including to provide the Scheme Consideration.

3 Conditions precedent

3.1 Conditions precedent to Scheme

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) as at 8.00am on the Second Court Date, neither the Scheme Implementation Deed nor the Deed Poll having been terminated;
- (b) all of the conditions precedent in schedule 2 of the Scheme Implementation Deed (other than the condition precedent in the Scheme Implementation Deed relating to Court approval of this Scheme) having been satisfied or waived (other than those conditions precedent which cannot be waived) in accordance with the terms of the Scheme Implementation Deed by 8.00am on the Second Court Date;
- (c) the Court having approved this Scheme, with or without any modification or condition, pursuant to section 411(4)(b) of the Corporations Act, and if applicable, the Target and the Acquirer 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 section 411(6) of the Corporations Act in relation to this Scheme and agreed to by the Acquirer and the Target having been satisfied or waived; and
- (e) 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) 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 clause 5

The satisfaction of each condition of clause 3.1 of this Scheme is a condition precedent to the operation of clause 5 of this Scheme.

3.3 Certificate in relation to conditions precedent

- (a) The Target and the Acquirer must provide to the Court on the Second Court Date a certificate confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent set out in clause 3.1 of this Scheme (other than the conditions precedent in

ANNEXURE C

SCHEME OF ARRANGEMENT

(continued)

clause 3.1(c), 3.1(d) and clause 3.1(e) of this Scheme) have been satisfied or waived as at 8.00am on the Second Court Date.

- (b) The certificates referred to in this clause 3.3 will constitute conclusive evidence of whether the conditions precedent referred to in clause 3.1 of this Scheme (other than the conditions precedent in clause 3.1(c), 3.1(d) and 3.1(e) of this Scheme) have been satisfied or waived as at 8.00am on the Second Court Date.

4 Scheme

4.1 Effective Date

Subject to clause 4.2, this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

4.2 End Date

This Scheme will lapse and be of no further force or effect if the Effective Date does not occur on or before the End Date.

5 Implementation of Scheme

5.1 Lodgement of Court orders with ASIC

If the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(e) of this Scheme) are satisfied, the Target must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving this Scheme by 5:00pm on the day on which the Court approves this Scheme or such later time as the Acquirer and the Target agree in writing.

5.2 Transfer and registration of Target Shares

On the Implementation Date, but subject to the provision by the Acquirer of the Scheme Consideration for the Scheme Shares as contemplated by clause 6.2 of this Scheme and the Acquirer having provided the Target with written confirmation thereof:

- (a) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to the Acquirer without the need for any further act by any Scheme Participant (other than acts performed by the Target as attorney and agent for Scheme Participants under clause 8.1 of this Scheme) by:
 - (i) the Target delivering to the Acquirer a duly completed and executed Share Scheme Transfer executed on behalf of the Scheme Participants; and
 - (ii) the Acquirer duly executing the Share Scheme Transfer and delivering it to the Target for registration; and
- (b) immediately following receipt of the duly executed Share Scheme Transfer, the Target must enter the name of the Acquirer in the Register in respect of all Scheme Shares transferred to the Acquirer in accordance with the terms of this Scheme.

5.3 Entitlement to Scheme Consideration

On the Implementation Date, in consideration for the transfer to the Acquirer of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares in accordance with clause 6 of this Scheme.

5.4 Title and rights in Target Shares

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clause 6 of this Scheme, on and from the Implementation Date, the Acquirer will be beneficially entitled to the Scheme Shares transferred to it under this Scheme, pending registration by the Target of the Acquirer in the Register as the holder of the Scheme Shares.

5.5 Scheme Participants' agreements

Under this Scheme, each Scheme Participant agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares (other than an entitlement to the Additional Dividend), in accordance with the terms of this Scheme.

5.6 Warranty by Scheme Participants

Each Scheme Participant warrants to the Acquirer and is deemed to have authorised the Target to warrant to the Acquirer as agent and attorney for the Scheme Participant by virtue of this clause 5.6, that:

- (a) all their Scheme Shares (including any rights and entitlements attaching to those shares) transferred to the Acquirer under the Scheme will, as at the date of the transfer, be fully paid and free from all Encumbrances; and
- (b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to the Acquirer under the Scheme.

The Target will provide such warranty to the Acquirer as agent and attorney of each Scheme Participant.

5.7 Transfer free of encumbrances

To the extent permitted by law, all Target Shares (including any rights and entitlements attaching to those shares) which are transferred to the Acquirer under this Scheme will, at the date of the transfer of them to the Acquirer, vest in the Acquirer 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 not referred to in this Scheme.

5.8 Appointment of Acquirer as sole proxy

Subject to the provision by the Acquirer of the Scheme Consideration for the Scheme Shares as contemplated by clause 6.2 of this Scheme, on and from the Implementation Date until the Target registers the Acquirer as the holder of all of the Target Shares in the Register, each Scheme Participant:

- (a) irrevocably appoints the Target as attorney and agent (and directs the Target in such capacity) to appoint the Acquirer and each of its directors from time to time (jointly and each of them individually) as its sole proxy and where applicable, corporate representative, to attend shareholders' meetings, exercise the votes attaching to the Target Shares registered in its name and sign any shareholders resolution, and no Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 5.8(a)); and
- (b) must take all other actions in the capacity of the registered holder of the Target Shares as the Acquirer directs.

ANNEXURE C

SCHEME OF ARRANGEMENT

(continued)

The Target undertakes in favour of each Scheme Participant that it will appoint the Acquirer and each of its directors from time to time (jointly and each of them individually) as that Scheme Participant's proxy or, where applicable, corporate representative in accordance with clause 5.8(a) of this Scheme.

Each Scheme Participant acknowledges and agrees that in exercising the powers referred to in this clause 5.8, the Acquirer and any director, officer, secretary or agent nominated by the Acquirer under clause 5.8 may act in the best interests of the Acquirer as the intended registered holder of the Scheme Shares.

6 Scheme Consideration

6.1 Consideration under the Scheme

On the Implementation Date, the Target must use its best endeavours to procure the Acquirer to pay (or procure the payment of) the Scheme Consideration to the Scheme Participants in accordance with clause 6.2 of this Scheme.

6.2 Satisfaction of obligations

The obligation of the Target to use its best endeavours to procure payment of the Scheme Consideration pursuant to clause 6.1 of this Scheme will be satisfied by the Target procuring the Acquirer no later than 1 Business Day before the Implementation Date to deposit (or procure the deposit of) in immediately available funds the aggregate amount of the Scheme Consideration payable to all Scheme Participants into the Trust Account (except that the amount of any interest on the amount deposited (less bank fees and other charges) will be to the Acquirer's account).

6.3 Payment of Scheme Consideration

As soon as practicable, and within 5 Business Days after the Implementation Date, subject to receipt of the Scheme Consideration from the Acquirer in accordance with clause 6.2 of this Scheme, the Target must pay or procure payment to each Scheme Participant or, if the Target permits and subject to any regulatory requirements, in accordance with a Scheme Participant's directions an amount equal to the Scheme Consideration for each Scheme Share transferred to the Target on the Implementation Date by that Scheme Participant.

Unless otherwise directed by the Scheme Participants before the Record Date, the amounts referred to in this clause 6.3 of this Scheme must be paid by direct credit (to their bank accounts for receipt of Target dividends) or sending a cheque drawn on an Australian bank in Australian currency on the Implementation Date to each Scheme Participant by pre-paid ordinary post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post) to their address recorded in the Register at 7.00pm on the Record Date.

6.3A Fractional Entitlements

Where the calculation of the Scheme Consideration to be issued to a particular Scheme Participant would result in the Scheme Participant becoming entitled to a fraction of a cent, the fractional entitlement will be rounded down to the nearest whole cent.

6.4 Unclaimed monies

The Target may cancel a cheque issued under clause 6.3 of this Scheme if the cheque:

- (a) is returned to the Target; or

- (b) has not been presented for payment within six months after the date on which the cheque was sent.

During the period of one year commencing on the Implementation Date, on request from a Scheme Participant, the Target must reissue a cheque that was previously cancelled under this clause 6.4.

6.5 Orders of a court

In the case of notice having been given to the Target (or the Registry) of an order made by a court of competent jurisdiction:

- (a) which requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Participant, which would otherwise be payable to that Scheme Participant in accordance with clause 6.3 of this Scheme, then the Target shall procure that payment is made in accordance with that order; or
- (b) which would prevent the Target from dispatching payment to any particular Scheme Participant in accordance with clause 6.3 of this Scheme, the Target will retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Participant multiplied by the Scheme Consideration until such time as payment in accordance with clause 6.3 of this Scheme is permitted by law.

6.6 Joint holders

In the case of Scheme Shares held in joint names any bank cheque required to be paid to Scheme Participants must be payable to the joint holders and be forwarded to the holder whose name appears first in the Register as at 7.00pm on the Record Date.

7 Dealings in Scheme Shares

7.1 Determination of Scheme Participants

To establish the identity of the Scheme Participants, dealings in Scheme Shares will only be recognised by the Target if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Scheme Shares on or before 7.00pm on the Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 7.00pm on the Record Date at the place where the Register is kept.

7.2 Register

The Target must register any registrable transmission applications or transfers of the Scheme Shares received in accordance with clause 7.1(b) of this Scheme on or before 7.00pm on the Record Date.

7.3 No disposals after Effective Date

If this Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Effective Date in any way except as set out in this Scheme and any such disposal will be void and of no legal effect whatsoever.

The Target will not accept for registration or recognise for any purpose any transmission, application or transfer in respect of Scheme Shares received after

ANNEXURE C

SCHEME OF ARRANGEMENT

(continued)

7.00pm on the Record Date or received prior to that times but not in registrable or actionable form (except a transfer to the Acquirer pursuant to this Scheme and any subsequent transfer by the Acquirer or its successors in title).

7.4 Maintenance of Target Register

For the purpose of determining entitlements to the Scheme Consideration, the Target will maintain the Register in accordance with the provisions of this clause 7.4 until the Scheme Consideration has been paid to the Scheme Participants and the Acquirer has been entered in the Register as the holder of all the Scheme Shares. The Register in this form will solely determine entitlements to the Scheme Consideration.

7.5 Effect of certificates and holding statements

Subject to provision of the Scheme Consideration and registration of the transfer to the Acquirer contemplated in clauses 5.2 and 6.1 of this Scheme, any statements of holding in respect of Scheme Shares will cease to have effect after 7.00pm on the Record Date as documents of title in respect of those shares (other than statements of holding in favour of the Acquirer and its successors in title). After 7.00pm on the Record Date, each entry current on the Register as at 7.00pm on the Record Date (other than entries in respect of the Acquirer or its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

7.6 Details of Scheme Participants

Within 3 Business Days after the Record Date, the Target will ensure that details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Participant, as shown in the Register at 7.00pm on the Record Date are available to the Acquirer in such form as the Acquirer reasonably requires.

7.7 Quotation of Target Shares

- (a) Suspension of trading on ASX in the Target Shares will occur from the close of trading on ASX on the Effective Date.
- (b) After the Scheme has been fully implemented, on a date determined by the Acquirer, the Target will apply:
 - (i) for termination of the official quotation of the Target Shares on ASX; and
 - (ii) to have itself removed from the official list of the ASX.

8 General Scheme provisions

8.1 Power of attorney

Each Scheme Participant, without the need for any further act by any Scheme Participant, irrevocably appoints the Target and each of its directors and secretaries (jointly and each of them individually) as its attorney and agent for the purpose of:

- (a) executing any document necessary or expedient to give effect to this Scheme including the Share Scheme Transfer; and
- (b) enforcing the Deed Poll against the Acquirer,

and the Target accepts such appointment.

8.2 Variations, alterations and conditions

The Target may, with the consent of the Acquirer (which cannot be unreasonably withheld), by its counsel or solicitor consent on behalf of all persons concerned to any variations, alterations or conditions to this Scheme which the Court thinks fit to impose.

8.3 Further action by Target

The Target will execute all documents and do all things (on its own behalf and on behalf of each Scheme Participant) necessary or expedient to implement, and perform its obligations under, this Scheme.

8.4 Authority and acknowledgement

Each of the Scheme Participants:

- (a) irrevocably consents to the Target, the Acquirer and MHA doing all things necessary or expedient for or incidental to the implementation of this Scheme; and
- (b) acknowledges that this Scheme binds the Target and all Scheme Participants (including those who do not attend the Scheme Meeting or do not vote at that meeting or vote against the Scheme at that Meeting) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of the Target.

8.5 No liability when acting in good faith

None of the Target, the Acquirer, nor any of their respective officers, will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

8.6 Enforcement of Deed Poll

The Target undertakes in favour of each Scheme Participant to enforce the Deed Poll against the Acquirer on behalf of and as agent and attorney for the Scheme Participants.

8.7 Stamp duty

The Acquirer will:

- (a) pay all stamp duty (including any fines, penalties and interest) in respect of this Scheme and the Deed Poll, the performance of the Deed Poll and each transaction effected by or made under or in connection with this Scheme and the Deed Poll; and
- (b) indemnify each Scheme Participant against any liability arising from the Acquirer's failure to comply with this clause 8.7.

8.8 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 Target's registered office or at the office of the registrar of the Target Shares.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Target Shareholder shall not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

ANNEXURE C

SCHEME OF ARRANGEMENT

(continued)

9 Governing law

9.1 Governing law

This Scheme is governed by the law in force in New South Wales, Australia.

9.2 Jurisdiction

Each party irrevocably and unconditionally:

- (a) submits to the non-exclusive jurisdiction of the courts of that place.
- (b) waives, without limitation, any claim or objection based on absence of jurisdiction or inconvenient forum.

ANNEXURE D
DEED POLL

KING & WOOD
MALLESONS

Deed Poll

Dated 2014

Given by Steadfast Group Limited (ACN 073 659 677) ("**Acquirer**")

In favour of each registered holder of fully paid ordinary shares in
Calliden Group Limited (ACN 061 215 601) ("**Target**") as at 7.00 pm on
the Record Date ("**Scheme Participants**")

King & Wood Mallesons

Level 61
Governor Phillip Tower
1 Farer Place
Sydney NSW 2000
Australia
T +61 9296 2000
F +61 9296 3999
DX 113 Sydney
www.kwm.com

ANNEXURE D

DEED POLL

(continued)

Deed Poll

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Deed Poll

Details

Acquirer	Name	Steadfast Group Limited
	ACN	073 659 677
	Incorporated in	New South Wales
	Address	Level 3, 97-99 Bathurst Street Sydney NSW 2000 Australia
	Telephone	+61 2 9495 6500
	Fax	+61 2 9495 6565
	Attention	Company Secretary
In favour of	Each registered holder of fully paid ordinary shares in the Target as at 7.00 pm on the Record Date.	
Recitals	A	The directors of the Target have resolved that the Target should propose the Scheme.
	B	The effect of the Scheme will be that all Target Shares will be transferred to the Acquirer.
	C	The Target and the Acquirer have entered into the Scheme Implementation Deed.
	D	In the Scheme Implementation Deed, the Acquirer agreed (amongst other things) to provide the Scheme Consideration to the Target on behalf of the Scheme Participants, subject to the satisfaction of certain conditions.
	F	The Acquirer is entering into this deed poll for the purpose of covenanting in favour of Scheme Participants to perform its obligations in relation to the Scheme.
Governing law	New South Wales, Australia	
Date of deed poll	See Signing page	

ANNEXURE D

DEED POLL

(continued)

Deed Poll

General terms

1 Definitions and interpretation

1.1 Definitions

In this deed poll (unless the context otherwise requires):

- (a) **Authorised Officer** means, in respect of a party, a director or secretary of the party or any other person appointed by a party to act as an Authorised Officer under this deed poll;
- (b) **Scheme Implementation Deed** means the Scheme Implementation Deed dated on or about 27 August 2014, between the Target and the Acquirer under which, amongst other things, the Target has agreed to propose the Scheme to the Scheme Participants, and each of the Acquirer and the Target has agreed to take certain steps to give effect to the Scheme;
- (c) **Scheme** means the proposed scheme of arrangement between the Target and Scheme Participants under which all the Target Shares will be transferred to the Acquirer under Part 5.1 of the Corporations Act, substantially in the form of Annexure A to this deed poll, or as otherwise agreed by the Acquirer and the Target, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act, to the extent they are approved in writing by the Target and the Acquirer in accordance with clause 8.2 of the Scheme; and
- (d) all other words and phrases used in this deed poll have the same meaning as given to them in the Scheme Implementation Deed.

1.2 Interpretation

Clause 1.2 of the Scheme applies to the interpretation of this deed poll except that references to "this deed" in that clause are to be read as references to "this deed poll".

1.3 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this deed poll.

1.4 Nature of deed poll

The Acquirer acknowledges that this deed poll may be relied on and enforced by any Scheme Participant (or the Target as their agent and attorney) in accordance with its terms even though the Scheme Participants are not a party to it.

2 Conditions precedent and termination

2.1 Conditions precedent

The Acquirer's obligations in respect of the Scheme and pursuant to this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

The Acquirer's obligations under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- (a) the Scheme has not become Effective on or before the End Date; or
- (b) the Scheme Implementation Deed is terminated in accordance with its terms.

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

- (a) the Acquirer is released from its obligations to further perform this deed poll except those obligations contained in clause 8.1 and any other obligations which are specifically stated to survive termination; and
- (b) each Scheme Participant retains the rights, powers or remedies they have against the Acquirer in respect of any breach of this deed poll which occurs before it is terminated.

3 Performance of Acquirer's obligations generally

The Acquirer must:

- (a) comply with its obligations under the Scheme;
- (b) do all acts and things necessary or desirable on its part to give full effect to the Scheme; and
- (c) on implementation of the Scheme, hold the Target On-Sale Business as agent for the MHA Group until completion of the Share and Business Acquisition Agreement.

4 Scheme Consideration

4.1 Scheme Consideration

Subject to clause 2, the Acquirer undertakes in favour of each Scheme Participant to pay the Scheme Consideration to the Trust Account on behalf of each Scheme Participant in accordance with the Scheme.

4.2 Manner of payment

The Acquirer's obligation to provide the Scheme Consideration to the Target on behalf of each Scheme Participant is satisfied by the Acquirer, no later than 1 Business Day before the Implementation Date, depositing in immediately available funds the aggregate amount of the Scheme Consideration payable to all Scheme Participants into the Trust Account (except that the amount of any interest on the amount deposited (less bank fees and other charges) will be to the Acquirer's account).

5 Representations and warranties

The Acquirer represents and warrants in respect of itself that:

- (a) it is a corporation validly existing under the laws of its place of registration;

ANNEXURE D

DEED POLL

(continued)

- (b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll; and
- (d) this deed poll is valid and binding upon it and enforceable against it in accordance with its terms.

6 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) the Acquirer has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.2.

7 Notices

7.1 Form - all communications

Unless expressly stated otherwise in this deed poll, all notices, certificates, consents, approvals, waivers and other communications in connection with this deed poll must be:

- (a) in writing;
- (b) signed by the sender (if an individual) or an Authorised Officer of the sender; and
- (c) marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the way last notified.

7.2 Delivery

Communications must be:

- (a) left at the address set out or referred to in the Details;
- (b) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;
- (c) sent by fax to the fax number set out or referred to in the Details; or
- (d) given in any other way permitted by law.

However, if the intended recipient has notified a changed address or fax number, then communications must be to that address or fax number.

7.3 When effective

Communications take effect from the time they are received or taken to be received under clause 7.4 (whichever happens first) unless a later time is specified.

7.4 When taken to be received

Communications are taken to be received:

- (a) if sent by post, three days after posting (or seven days after posting if sent from one country to another); or
- (b) if sent by fax, at the time shown in the transmission report as the time that the whole fax was sent.

7.5 Receipt outside business hours

Despite clauses 7.3 and 7.4, if communications are received or taken to be received under clause 7.4 after 5.00pm in the place of receipt or on a non-Business Day, they are taken to be received at 9.00am on the next Business Day and take effect from that time unless a later time is specified.

8 General**8.1 Stamp duty, fees and costs**

The Acquirer must:

- (a) pay all stamp duty (including fines, penalties and interest) payable and assessed on or in connection with this deed poll, the performance of this deed poll, or any instruments entered into under this deed poll and in respect of a transaction effected by or made under the Scheme and this deed poll; and
- (b) pay bank fees and/or similar costs in respect of its obligations under the Scheme (including in connection with the transfer of the Target Shares to the Acquirer in accordance with the terms of the Scheme); and
- (c) indemnify on demand each Scheme Participant against any liability arising from failure to comply with clauses 8.1(a) or 8.1(b).

8.2 Waiver

- (a) A waiver of any right arising from a breach of this deed poll or of any right, power, authority, discretion or remedy arising upon default under this deed poll must be in writing and signed by the party giving the waiver.
- (b) A failure or delay in exercise, or partial exercise, of:
 - (i) a right arising from a breach of this deed poll; or
 - (ii) a right, power, authority, discretion or remedy created or arising upon default under this deed poll,
 does not result in a waiver of that right, power, authority, discretion or remedy.
- (c) A party is not entitled to rely on a delay in the exercise or non-exercise of a right, power, authority, discretion or remedy arising from a breach of this deed poll or on a default under this deed poll as constituting a waiver of that right, power, authority, discretion or remedy.
- (d) A party may not rely on any conduct of another party as a defence to exercise of a right, power, authority, discretion or remedy by that other party.

ANNEXURE D

DEED POLL

(continued)

8.3 Variation

A provision of this deed poll or any right created under it may not be varied, altered or otherwise amended unless:

- (a) the variation is agreed to by the Target and the Acquirer in writing; and
- (b) the Court indicates that the variation, alteration or amendment would not itself preclude approval of the Scheme,

in which event the Acquirer must enter into a further deed poll in favour of the Scheme Participants giving effect to the variation, alteration or amendment.

8.4 Remedies cumulative

The rights, powers and remedies of the Acquirer and the Scheme Participants under this deed poll are cumulative and are in addition to, and do not exclude any, other rights, powers and remedies given by law independently of this deed poll.

8.5 Scheme Implementation Deed

Without limiting clause 8.4, this deed poll operates in addition to, and does not supersede, the Scheme Implementation Deed, which remains in full force and effective according to its terms.

8.6 Assignment

The rights and obligations of the Acquirer and each Scheme Participant under this deed poll are personal and must not be assigned, encumbered or otherwise dealt with at law or in equity except as permitted under clause 20.17 of the Scheme Implementation Deed.

8.7 Governing law and jurisdiction

This deed poll is governed by the law in force in the place specified in the Details. The Acquirer submits to the non-exclusive jurisdiction of the courts of that place.

8.8 Further action

The Acquirer must execute all deeds and other documents and do all things (on its own behalf or on behalf of each Scheme Participant) necessary or expedient to give full effect to this deed poll and the transactions contemplated by it.

EXECUTED as a deed poll

ANNEXURE E

CALLIDEN GROUP LIMITED ACN 061 215 601

NOTICE OF SCHEME MEETING

By an Order of the Federal Court of Australia made on 31 October 2014 under section 411(1) of the Corporations Act, notice is hereby given that a meeting of the Calliden Shareholders will be held at the Royal Automobile Club of Australia, 89 Macquarie Street, Sydney on 8 December 2014 commencing at 10.00am (Sydney time).

The Court has also directed that Richard Hill, or, if he is unable or unwilling to attend, Jack Lowenstein act as chairman of the meeting and has directed the chairman to report the result of the meeting to the Court.

PURPOSE OF THE MEETING

The purpose of the meeting is to consider and, if thought fit, to agree (with or without any alterations or conditions required by the Court to which Calliden and Steadfast agree) to the Scheme proposed to be made between Calliden and the Calliden Shareholders.

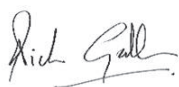
A copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet of which this notice forms part.

RESOLUTION

The meeting 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 2001* (Cth), the scheme of arrangement proposed between Calliden Group Limited and the holders of its fully paid ordinary shares, as contained in and more particularly described in the Scheme Booklet of which the notice convening this meeting forms part, is approved, with or without alterations or conditions as approved by the Court to which Calliden Group Limited and Steadfast Group Ltd agree.’

Dated 31 October 2014



Nick Geddes
Company Secretary

EXPLANATORY NOTES

1 GENERAL

This notice should be read in conjunction with the Scheme Booklet of which this notice forms part. The Scheme Booklet contains important information to assist you in determining how to vote on the Scheme Resolution.

Capitalised terms used but not defined in this notice have the meanings set out in the Glossary (Section 10) of the Scheme Booklet, unless the context otherwise requires.

2 APPROVAL OF THE SCHEME

In order for the Scheme to be approved and implemented, a resolution approving the Scheme must be passed by Calliden Shareholders by the Requisite Majority being:

- a majority in number (more than 50%) of Calliden Shareholders present and voting at the Scheme Meeting (in person, or by proxy); and
- at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting.

Voting at the meeting will be conducted by poll.

3 COURT APPROVAL

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without any alterations or conditions required by the Court to which Calliden and Steadfast agree) must also be approved by an order of the Court. If the Scheme Resolution put to the Scheme Meeting is passed by the Requisite Majority and all of the other Conditions Precedent (other than approval by the Court) are either satisfied or waived (as applicable), Calliden intends to apply to the Court for the necessary orders to give effect to the Scheme.

It is necessary for all of the Conditions Precedent to be either satisfied or waived (as applicable) and for the Court to approve the Scheme before it can become Effective.

ANNEXURE E

NOTICE OF SCHEME MEETING

(continued)

4

WHO IS ENTITLED TO VOTE AT THE SCHEME MEETING?

If you are registered as a Calliden Shareholder in the Register at the Voting Entitlement Time (being 7.00pm on 6 December 2014), you will be entitled to attend and vote at the Scheme Meeting.

Calliden Shareholders who are eligible to vote on the Scheme Resolution may vote in person, by proxy, by attorney or, in the case of a body corporate, by a duly appointed corporate representative.

If you hold Calliden Shares jointly with one or more other persons, only one of you may vote. If more than one of you attempts to vote in person at the meeting, the vote of the holder whose name appears first in the Register will be counted.

5

HOW TO VOTE

5.1. VOTING IN PERSON

If Calliden Shareholders wish to vote in person at the Scheme Meeting, they should attend the Scheme Meeting which will be held at the Royal Automobile Club of Australia, 89 Macquarie Street, Sydney at 10.00am (Sydney time) on 8 December 2014. All persons entitled to vote will be required to register and will be given a voting card.

5.2. VOTING BY PROXY

Eligible Calliden Shareholders wishing to vote by proxy at the Scheme Meeting can appoint a proxy to attend the Scheme Meeting and vote on their behalf by completing the personalised Proxy Form that accompanies this Scheme Booklet (in accordance with the instructions on that form).

If you are entitled to cast two or more votes at the Scheme Meeting, you may appoint one or two proxies. A proxy need not be another Calliden Shareholder. Each proxy will have the right to vote on the poll.

Completed Proxy Forms must be received by the Calliden Share Registry by 10.00am (Sydney time) on 6 December 2014 in any of the following ways:

- by post in the enclosed reply paid envelope provided to the Calliden Share Registry: Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001;

- by hand delivery (during business hours) to the Calliden Share Registry: Computershare Investor Services Pty Limited, Level 4, 60 Carrington Street, Sydney NSW 2000;
- by fax to the Calliden Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia);
- online at www.investorvote.com.au; or
- online at www.intermediaryonline.com for intermediary online subscribers (custodians) only.

Proxy forms received after this time will be invalid.

5.3. VOTING BY ATTORNEY

If you wish to vote by attorney, the power of attorney appointing your attorney to attend and vote at the meeting must be duly executed by you and specify your name, Calliden, and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one. The power of attorney or a notarially certified copy of the power of attorney must be delivered and received by the Calliden Share Registry (at the address, or facsimile number specified in section 5.2 of these explanatory notes) by no later than 10.00am on 6 December 2014 (or 48 hours prior to the commencement of the Scheme Meeting or any adjournment of that meeting). An attorney will be admitted to the Scheme Meeting and given a voting card upon providing, at the point of entry to the Scheme Meeting, written evidence of their appointment and their identity.

5.4. VOTING BY CORPORATE REPRESENTATIVE

If you are a body corporate, you may appoint a person to act as your corporate representative to vote at the Scheme Meeting. A form of certificate of appointment of a body corporate may be obtained from the Calliden Share Registry or online at www.investorcentre.com under the help tab, "Printable Forms". The completed certificate of appointment should be lodged at the registration desk on the day of the Scheme Meeting or be received by the Calliden Share Registry (at the address or facsimile number specified in section 5.2 of these explanatory notes) by no later than 10.00am on 6 December 2014 (or 48 hours prior to the commencement of the Scheme Meeting). An authorised corporate representative will be admitted to the Scheme Meeting and given a voting card upon providing, at the point of entry to the Scheme Meeting, written evidence of their appointment (including any authority under which it is signed), their name and address and the identity of their appointer.

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Scheme Booklet

calliden
group

Calliden Group Limited
ACN 061 215 601