



Remuneration Approval Report

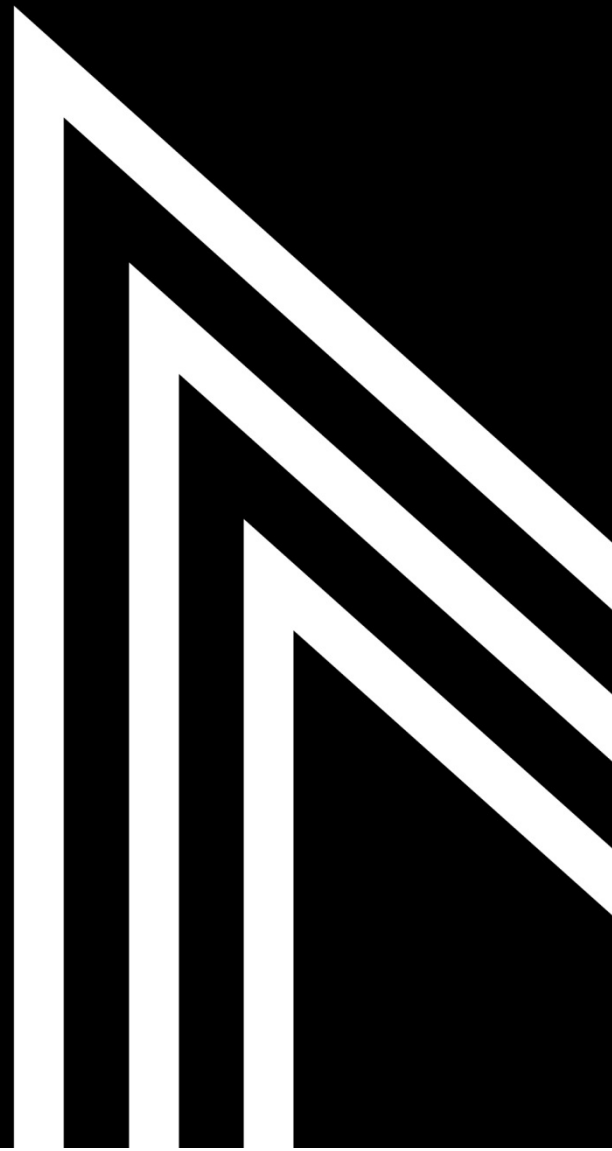
Sound Diagnostics Pty Ltd (Subject to Deed of Company Arrangement)

ACN: 116 377 201

11 November 2020



McGrathNicol



This remuneration approval report provides you with information to assist you to make an informed decision regarding the approval of our proposed remuneration for undertaking the Deed of Company Arrangement of Sound Diagnostics Pty Ltd (Subject to Deed of Company Arrangement) (**Sound Diagnostics**).

The report has the following information:

1	Declaration	2
2	Executive Summary	2
3	Remuneration.....	2
3.1	Retrospective remuneration.....	2
3.2	Prospective remuneration.....	7
3.3	Estimated future remuneration.....	10
3.4	Total remuneration reconciliation.....	10
3.5	Likely impact on dividends	11
3.6	Remuneration recovered from external sources.....	11
4	Disbursements.....	11
4.1	Internal disbursements.....	11
5	Summary of receipts and payments.....	12
6	Queries.....	12
	Schedule A – Summary of receipts and payments.....	13

1 Declaration

We, Rob Kirman and Matthew Caddy of McGrathNicol, have undertaken a proper assessment of this remuneration claim for our appointment as Deed Administrators of Sound Diagnostics in accordance with the law and applicable professional standards. We are satisfied that the remuneration claimed is in respect of necessary work, properly performed, or to be properly performed, in the conduct of this matter.

We have reviewed the work in progress report for the Deed of Company Arrangement (**DOCA**) to ensure that remuneration is only being claimed for necessary and properly performed work.

2 Executive Summary

To date, remuneration as set out in the table below has been approved and paid in the Administration and DOCA.

Past approvals (exc. GST)	Appointment type	Approved	Paid
Remuneration period			
25 May 2020 to 7 August 2020	Administration	\$498,126.00	\$498,126.00
8 August 2020 to execution of the DOCA	Administration	\$30,000.00	\$30,000.00
Period of the DOCA	DOCA	\$170,000.00	\$170,000.00
22 September 2020 – 2 October 2020	DOCA	\$26,995.50	\$26,995.50
3 October 2020 – 23 October 2020	DOCA	\$50,000.00	\$50,000.00
Total remuneration			\$775,121.50

This remuneration approval report details approval sought for the following remuneration:

Remuneration approvals sought	Report Reference	Amount (ex GST)
Retrospective	3.1	\$24,064.00
Prospective*	3.2	\$35,000.00
Total remuneration approvals sought		\$59,064.00

*Approval sought for future remuneration is based on an estimate of work necessary to finalisation of the DOCA.

Please refer to the report section references detailed in the above table for full details of the remuneration sought.

3 Remuneration

3.1 Retrospective remuneration

We request that the following resolution be passed to approve our retrospective remuneration. Details to support this resolution are included further below.

Retrospective remuneration resolution	Appointment Type	Amount (ex GST)
Resolution 1: 23 October 2020 – 6 November 2020	DOCA	\$24,064.00
Total retrospective remuneration resolution		\$24,064.00

Resolution 1: Retrospective remuneration from 23 October 2020 to 6 November 2020

"That the remuneration of the Deed Administrators for the period 23 October 2020 to 6 November 2020, calculated at hourly rates as detailed in the Initial Remuneration Notice dated 28 May 2020, is determined in the sum of \$24,064.00, exclusive of GST."

We will withdraw funds from the administration account in respect of the Deed Administrators' remuneration immediately upon approval if funds are available. If funds are not available, we will withdraw funds progressively over time as funds become available.

The following table sets out the time charged to each major task area by staff members working on the DOCA for the period 23 October 2020 to 6 November 2020, which is the basis of Resolution 1. More detailed descriptions of the tasks performed within each task area, matching the amounts below, are contained further below.

Resolution 1: Retrospective remuneration from 23 October 2020 to 6 November 2020

Remuneration for the period 23 October 2020 to 6 November 2020															
Employee	Position	Hrly rate	Creditors		Employees		Trade on		Dividend		Administration		Total		
			Hrs	Fees (\$)	Hrs	Fees (\$)	Hrs	Fees (\$)	Hrs	Fees (\$)	Hrs	Fees (\$)	Hrs	Fees (\$)	
Rob Kirman	Appointee	595	2.40	1,428.00	0.20	119.00	-	-	3.10	1,844.50	-	-	5.70	3,391.50	
Employee B	Director	525	1.40	735.00	1.20	630.00	0.10	52.50	7.10	3,727.50	2.50	1,312.50	12.30	6,457.50	
Employee C	Manager	450	3.50	1,575.00	3.50	1,575.00	0.20	90.00	6.10	2,745.00	6.70	3,015.00	20.00	9,000.00	
Employee D	Professional Practices Manager	380	-	-	-	-	-	-	0.40	152.00	-	-	0.40	152.00	
Employee E	Accountant	305	3.30	1,006.50	-	-	0.50	152.50	4.20	1,281.00	6.90	2,104.50	14.90	4,544.50	
Employee F	Treasury Staff	305	-	-	-	-	-	-	-	-	0.60	183.00	0.60	183.00	
Employee G	Treasury Staff	305	-	-	-	-	-	-	-	-	1.10	335.50	1.10	335.50	
Total fees (excluding GST)			10.60	4,744.50	4.90	2,324.00	0.80	295.00	20.90	9,750.00	17.80	6,950.50	55.00	24,064.00	
Average hourly rate				448		474		369		467		390		438	

The below table sets out a detailed description of work undertaken on the DOCA for the period 23 October 2020 to 6 November 2020, which is the basis of Resolution 1.

Resolution 1: Retrospective remuneration of the DOCA for the period 23 October 2020 to 6 November 2020

Task Area	General Description	Includes
Creditors 10.6 hours \$4,744.50	Creditor Enquiries, Requests & Directions	<ul style="list-style-type: none"> Receive and respond to creditor enquiries, request and directions Consider reasonableness of creditor requests and liaise with legal advisors as required
	Secured creditors	<ul style="list-style-type: none"> Correspondence with legal advisors in relation to the adjudication of secured creditor proofs of debt, requesting additional information and responding to queries as required
	Creditor reports	<ul style="list-style-type: none"> Prepare report to creditors and accompanying remuneration report Review work-in-progress report ahead of preparing remuneration report Prepare Notice of Proposals to creditors
	Proposals to Creditors	<ul style="list-style-type: none"> Review proposal notices and voting forms Lodge Form 5022s with ASIC
Trade On 0.8 hours \$295.00	Trade On Management	<ul style="list-style-type: none"> Liaise with suppliers to close administration accounts and issue final invoices Liaise with management in relation to post-Completion matters regarding final invoices and transition of ongoing telecommunications accounts
Employees 4.9 Hours \$2,324.00	Employee entitlements	<ul style="list-style-type: none"> Attend to post-Completion review and reconciliation of employee entitlements and adjustments in respect to long service leave and annual leave loading entitlements Attending to employee queries in relation to superannuation entitlements

Task Area	General Description	Includes
Dividend 20.9 hours \$9,750.00	Deal with and process proofs of debt	<ul style="list-style-type: none"> ▪ Receive PODs from claimants ▪ Collate and adjudicate PODs ▪ Maintain adjudicated POD register ▪ Obtain legal advice as necessary regarding POD adjudication ▪ Prepare and maintain POD and adjudication schedule ▪ Obtain legal advice as necessary with regard to various elements of creditor claims ▪ Prepare and issue correspondence to creditors in respect of further information requirements to support claim and legal basis of claims ▪ Prepare and issue correspondence, together with formal notices of rejection of proofs of debt or claims (in whole or in part)
	Dividend procedures	<ul style="list-style-type: none"> ▪ Prepare correspondence in relation to payment of the first and final dividend for priority creditors ▪ Prepare correspondence in relation to payment of the first and final dividend to unsecured creditors ▪ Prepare and maintain mail merge schedule, incorporating adjudicated POD amounts
Administration 17.8 hours \$6,950.50	Document maintenance/file review/checklist	<ul style="list-style-type: none"> ▪ Maintain physical and electronic engagement file ▪ Update checklists as required
	Insurance	<ul style="list-style-type: none"> ▪ Correspond with insurer regarding finalisation of policies and confirmation of run-off cover ▪ Review insurance policies and settle final liabilities and/or policy refunds
	Bank account administration	<ul style="list-style-type: none"> ▪ Process and approve payments ▪ Reconcile post-appointment bank accounts on a regular basis ▪ Prepare reconciliation of MYOB cashbook
	Planning/Review	<ul style="list-style-type: none"> ▪ Internal discussions regarding key work streams, including progression of DOCA, first and final dividend to creditors, distribution to shareholders and adjudication of creditor claims ▪ Hold internal meetings to discuss rolling checklist and statutory lodgements

Task Area	General Description	Includes
	Australian Taxation Office (ATO)	<ul style="list-style-type: none"> ▪ Prepare business activity statements for DOCA period ▪ Liaise with the ATO in relation to an audit of business activity statements and provide requested information in support of post completion GST refunds ▪ Liaise with the ATO in relation to queries regarding JobKeeper eligibility ▪ Liaise with the ATO in relation to interest charges incorrectly accrued on DOCA Integrated Client Account ▪ Liaise with the ATO regarding finalisation of SGC liabilities
	Australian Securities and Investments Commission	<ul style="list-style-type: none"> ▪ Review ASIC Form 5022 – Notice of Proposal to creditors ▪ Lodge ASIC Form 5022 – Notice of Proposal to creditors
Total		
\$24,064.00		

3.2 Prospective remuneration

We will request that the following resolution be passed to approve our prospective remuneration. Details to support this resolution are included further below.

Prospective remuneration resolution	Appointment Type	Amount (ex GST)
Resolution 2 : 7 November 2020 – Finalisation of the DOCA	DOCA	\$35,000.00
Total prospective remuneration resolution		\$35,000.00

Resolution 2: Prospective remuneration from 7 November 2020 to finalisation of the DOCA

“That the future remuneration of the Deed Administrators from 7 November 2020 to finalisation of the DOCA is determined at a sum equal to the cost of time spent by the Deed Administrators and their partners and staff, calculated at the hourly rates as detailed in the Initial Remuneration Notice dated 28 May 2020, up to a capped amount of \$35,000.00, exclusive of GST.”

We will withdraw funds from the administration account in respect of the Deed Administrators’ remuneration progressively over time as funds become available and only once it is incurred. If actual costs incurred are below the capped amount, the Deed Administrators are only authorised to draw the amount incurred. If actual costs incurred exceed the amount approved, the Deed Administrator may seek further approval from creditors.”

The following table sets out the expected costs and a detailed description of the work by task area to be undertaken on the DOCA for the period 7 November 2020 to finalisation of the DOCA, which is the basis of Resolution 2.

Resolution 2: Prospective remuneration of the DOCA for the period 7 November 2020 to finalisation of the DOCA

Task Area	General Description	Includes
Creditors \$5,000	Creditor Enquiries, Requests & Directions	<ul style="list-style-type: none"> ▪ Receive and respond to creditor enquiries as necessary ▪ Consider reasonableness of creditor requests and liaise with legal advisors as needed ▪ Document reasons for not complying with requests or directions as required
	Creditor reports	<ul style="list-style-type: none"> ▪ Finalise report to creditors and accompanying remuneration report ▪ Finalise notice of proposals ▪ Issue creditor report to all known creditors ▪ Upload report to McGrathNicol website
	Proposals to Creditors	<ul style="list-style-type: none"> ▪ Review votes and determine outcome of proposal ▪ Prepare and lodge form 5022 proposal outcomes with ASIC
Dividend \$17,500	Estimate of DOCA Fund available	<ul style="list-style-type: none"> ▪ Updates to and finalisation of, as required, estimated DOCA Fund available for first and final dividend to creditors and distribution of surplus to shareholders
	Process proofs of debt	<ul style="list-style-type: none"> ▪ Review and assess all remaining supporting documentation in relation to claimant's PODs ▪ Finalise POD register ▪ Correspond with claimants regarding PODs ▪ Liaise with the ATO regarding processing of POD for outstanding taxation amounts and pre-appointment employee superannuation

Task Area	General Description	Includes
	Dividend procedures	<ul style="list-style-type: none"> ▪ Enter all adjudicated POD amounts into MYOB, to extent not already completed ▪ Prepare payment of dividend and enter into accounting system ▪ Pay first and final dividend to all known creditors and reconcile to MYOB and estimated outcome statement ▪ Prepare and issue correspondence to creditors in relation to the payment of the first and final dividend ▪ Issue Form 549 – Notice of First and Final Dividend to all creditors admitted to participate in dividend ▪ Correspond with the ATO regarding payment of outstanding taxation liabilities and pre-appointment employee superannuation ▪ Respond to any creditor queries regarding the payment of the first and final dividend
	Distribution to shareholders	<ul style="list-style-type: none"> ▪ Review DOCA Fund surplus following creditor dividend available for distribution to shareholders ▪ Preparation and filing of necessary Court application regarding distribution of shareholder surplus into Court ▪ Liaise with shareholders, legal advisors and the Court, as required, to finalise distribution of shareholder surplus into Court
Administration \$12,500	Document maintenance/file review/checklist	<ul style="list-style-type: none"> ▪ Conduct six monthly file reviews ▪ Maintain physical and electronic engagement file ▪ Update checklists in preparation for retirement
	Bank account administration	<ul style="list-style-type: none"> ▪ Perform post distribution bank account reconciliations ▪ Prepare correspondence to close accounts ▪ Request final bank statements ▪ Close bank accounts as and when required
	ASIC forms	<ul style="list-style-type: none"> ▪ Prepare and lodge form 5022 Notice of proposals forms ▪ Prepare and lodge form 505 for the cessation of the Deed Administrators ▪ Prepare and lodge form 5603 End of Administration return for the DOCA period ▪ Correspond with ASIC regarding any other statutory forms

Task Area	General Description	Includes
	ATO and other statutory reporting	<ul style="list-style-type: none"> ▪ Finalise FY21 financial accounts, tax returns and related reporting to completion of the DOCA, including liaison with external accountant regarding these matters ▪ Lodgement of FY21 financial accounts, tax returns and related reporting up to completion of the DOCA with the Australian Taxation Office, as required ▪ Reconcile GST account ▪ Prepare BAS returns for the DOCA period after payment of the First and Final Dividend
	Finalisation	<ul style="list-style-type: none"> ▪ Notify the Australian Taxation Office and other relevant authorities of ceasing to act as Deed Administrators ▪ Cancel GST/PAYG registration upon retirement ▪ Complete finalisation checklists ▪ Conduct final file review upon retirement
	Planning/Review	<ul style="list-style-type: none"> ▪ Internal discussions and meetings regarding status of the DOCA, dividend to creditors, distribution to shareholders and finalisation of engagement
	Books and records / storage	<ul style="list-style-type: none"> ▪ Deal with records in storage ▪ Preserve and deal with company records
Total		
\$35,000		

3.3 Estimated future remuneration

In preparing this report, our prospective remuneration approval is our best estimate of what we believe the DOCA will cost to complete and we do not anticipate that we will have to ask creditors to approve any further remuneration. However, should the DOCA not proceed as expected, we will advise creditors and we may seek approval of further remuneration.

3.4 Total remuneration reconciliation

At this point in time we estimate that the total remuneration for the DOCA will be \$834,185.50 (GST exclusive), as shown in the table below.

Remuneration type	Amount (ex GST)	Amount (ex GST)
Previous remuneration approvals (refer to section 2)		\$775,121.50
Current remuneration approval being sought:		
Retrospective remuneration approval (refer to section 3.1)	\$24,064.00	
Prospective remuneration approval (refer to section 3.2)	\$35,000.00	\$59,064.00
Estimated total remuneration		\$834,185.50

In our Remuneration Report to creditors dated 9 October 2020, we estimated total remuneration for the Administration and DOCA to be \$775,121.50 (excluding GST). Our current estimate of \$834,185.50 (excluding GST) exceeds the estimate previously provided to creditors as the Deed Administrators have been required to undertake the following additional and previously unforeseen work:

- dealing with ongoing completion adjustment issues pertaining to transferring employee entitlements, including (i) long service leave accrual reconciliations, and (ii) inconsistencies with pre-appointment contracts and leave loading entitlements;
- liaising with the ATO in relation to (i) completion of the DOCA and reporting requirements of the Deed Administrators and RSA pre and post completion of the DOCA, and (ii) an audit of GST transactions on completion;
- protracted communications and follow up with post appointment suppliers and the transition of trading arrangements post completion than was previously forecast; and
- the level of correspondence and time required to effectively communicate and manage rejected creditor claims than previously forecast. Additional work which has avoided of court appeal(s) and intervention.

3.5 Likely impact on dividends

It is both reasonable and appropriate for a professional service provider to be remunerated for their services. An external administrator is entitled to be remunerated for necessary work that is properly performed. That work generates the funds that may be recovered for the benefit of creditors and other stakeholders.

The impact of the approval of the external administrator's remuneration is that the remuneration will then be paid provided sufficient funds are generated to enable it to be paid. The remuneration will be paid from those funds that are generated prior to the payment of most creditors in the external administration.

It is noted that funds would only be available to any stakeholder as a consequence of the work necessarily undertaken by the external administrator.

The impact on the dividend to creditors of Sound Diagnostics remains unaffected as a result of the further remuneration sought by the Deed Administrators. At this stage, priority, secured and unsecured creditors are expected to be paid in full and a material return to shareholders is anticipated.

3.6 Remuneration recovered from external sources

The Deed Administrators have not recovered any remuneration from external sources or received any indemnities or up-front payments.

4 Disbursements

Disbursements are paid for by McGrathNicol and are recovered from the Deed Administrators' bank account.

Disbursements are divided into two types:

- External disbursements- these are recovered at cost. Examples are travel, accommodation, postage, advertising, couriers and search fees.
- Internal disbursements – these disbursements are charged at a rate which recoups both fixed and variable costs and may include an element of profit or advantage to the External Administrator or a related party of the External Administrator. Examples are printing and data storage. The recovery of these costs must be on a reasonable commercial basis. Details of the basis of recovery of each of these costs is discussed below.

We have undertaken a proper assessment of disbursements claimed for the DOCA, in accordance with the law and applicable professional standards. We are satisfied that the disbursements claimed are necessary and proper.

4.1 Internal disbursements

Internal disbursements may have an element of profit or advantage to the External Administrator or a related party of the External Administrator. Creditors are required to approve these types of disbursements. No approval for internal disbursements are being sought at this stage.

5 Summary of receipts and payments

A summary of the receipts and payments for the period from 18 August 2020 to 6 November 2020 is included at Schedule A to this report.

6 Queries

If you have any queries regarding the information in this report, please contact Antoine Cleuet on (08) 6363 7635 or acleuet@mcgrathnicol.com.

You can also access information that may assist you on the following websites:

- ARITA at www.arita.com.au/creditors
- ASIC at www.asic.gov.au (search for "fees of insolvency practitioner").

Supporting documentation for our remuneration claim may be viewed if requested, provided sufficient notice is given.

Dated: 11 November 2020



Rob Kirman
Deed Administrator

Schedule A – Summary of receipts and payments

Receipts and Payments for the period 18 August 2020 to 6 November 2020

\$ (incl. GST where applicable)

Opening cash at bank (Funds transferred from administration)	434,019
Receipts	
Radiology services and other trading revenue	336,792
Debtors	8,800
JobKeeper Grants	91,500
ATO Cash Flow Boosts	37,500
DOCA Contribution and post-Completion adjustment for sale of share capital	14,765,703
Refund of pre-appointment funds paid into Court	18,042
Total receipts	15,258,337
Payments	
Employee wages & costs (net)	(376,067)
Employee superannuation	(42,108)
Premises rent and payments to Landlord	(50,668)
Equipment service agreements	(1,068)
Equipment rental	(6,124)
Stock and supply purchases	(24,961)
Insurance	(9,213)
Telephone & internet	(20,584)
Radiology consultants	(28,581)
Utilities	(20,526)
Bookkeeping	(122,034)
BAS payments (PAYG/GST)	89,306
Secured creditor claims to provide unencumbered assets at Completion	(2,385,206)
Appointee fees and disbursements	(856,229)
Legal fees and disbursements	(235,062)
Other expenses	(29,136)
Total payments	(4,118,262)
Net receipts	11,140,075
Cash at bank as at 6 November 2020	11,574,094