Foreign Exchange Risk Management Policy

Paragon Care Limited

ACN 064 551 426

1. Policy approval and Application

1.1 This document is approved by the Board and no part of the document may be amended without the Board's approval. The approved document includes the body of the document, the appendices and any explanatory documents.

1.2 The policy is to be reviewed and approved on a two-yearly basis (or earlier if required). The policy is applicable to the whole organisation including any wholly owned subsidiaries.

1.3 There may be some differences in the application of this policy in different subsidiaries and countries we operate in.

2. Recognition of Currency Risk

2.1 Foreign exchange ***transaction risk*** is the risk that Paragon Care (PC) cash flows and earnings will be adversely affected by movements in exchange rates, which will increase the Australian (AUD) value of foreign currency expenses or payables or will diminish the AUD value of foreign currency revenues or receivables, given the AUD reporting currency of the group.

Transaction risk is managed on a net cash flow basis as outlined in the document.

2.2 Foreign exchange ***translation risk*** relates to the effect of currency market movements on the value of a company's net assets denominated in foreign currencies when those values are translated into the reporting currency for accounting purposes.

Translation risk is not managed on an ongoing basis but will be reviewed periodically and may be considered in specific events, for example; business sale/acquisition, capital structure.

3. Framework Objectives

3.1 PC primary objective in hedging the transactional currency risk is to ensure that foreign currency revenues or payables are protected against adverse movements in the foreign exchange market.

3.2 PC secondary objective is to implement a currency hedging methodology that allows some participation in favourable currency moves in the short to medium term without jeopardising the primary objective.

3.3 Overall, PC objective is to minimise currency risk when appropriate and not to participate in foreign currency speculation.

4. Measurement of Foreign Exchange Transactional Risk

4.1 Transactional Risk will be measured by projecting the net foreign currency cash flows in a table of each currency to which PC has an exposure.

4.2 Contracts that include clauses to automatically adjust for movements in exchange rates (Rise and Fall contracts) - foreign currency expenses/payables or revenues/receivables subject to rise and fall contracts which are enforced by PC are to be excluded from forecast exposure calculations.

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5. Management of Foreign Exchange Transactional Exposure

5.1 Responsibility for managing FX transaction risk resides with the Company Secretary, who reports to the CFO – Transactional limits are shown in ***Appendix A***.

5.2 The CFO will report to the Board on a monthly basis for PC:
(a) The level of exposures,
(b) The associated hedges,
(c) Compliance with hedging limits;

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6. Method of Hedging Transaction Exposure

6.1 Foreign currency exposure that is known with a high level of certainty or with a high level of probability (with respect to the timing and quantum) must be hedged in accordance with the permitted hedging ratios. The hedging template quantifies the minimum and the maximum levels of approved hedging.

6.2 'Known with a high level of certainty' means that Management needs to be certain about the timing and amount of the foreign currency payable/receivable before the exposure is covered. An example is a firm purchase order placed with supplier that is denominated in a foreign currency. Hedging will eliminate the risk of an adverse financial outcome and achieve certainty.

6.3 'Highly probable', means the transaction is more than likely to take place. When assessing the probability, PC considers the frequency of similar historical transactions and the length of time until the forecasted transaction is projected to take place and the amount of the forecasted transaction. Short to medium term is generally 0 to 12 months and medium to long term is generally 13 to 24 months.

6.4 Given the Groups risk management objectives are to ensure that risks are effectively identified, assessed, monitored and managed, PC has a conservative approach to the management of foreign exchange risks and as such, certain limits will be implemented which will guide the hedging activities undertaken.

6.5 Hedging limits will be calculated on a percentage of highly probably forecast transactions. On the basis of the above criteria, the foreign exchange framework for hedging the Group's exposures, using hedge ratios (i.e. percentage of notional exposure hedged) are as follows:

6.6 The method applies hedges to forecasted foreign currency cashflows on a rolling twenty four (24) month basis within the following parameters:

Hedge Matrix	1-3 Months	4-6 Months	7-9 Months	10-12 Months	13-24 Months
Policy Maximum Policy Minimum	100% 80%	70% 50%	50% 30%	20% 0%	

6.7 The above matrix is designed to smooth the impact of foreign currency risk on Paragon Care and is in line with its budgeting, revenue and buying cycle. It seeks to enforce minimal hedging as revenue and procurement contracts are finalised in future periods. From time-to-time mismatches in timing may occur between the maturity of hedging instruments and the recognition of a designated hedged item. In such cases, hedging instruments may be rolled over for a period not exceeding twelve months.

6.8 As the policy is maintained on a rolling twenty-four (24) month basis, this will also ensure hedging is proactively executed.

6.9 Forecast currency cash flows of up to A$250,000 (equivalent) per month will be monitored but are not required to be hedged.

6.10 Transactions from some of our foreign subsidiaries may be excluded from hedging due to complications or foreign banking and financial regulation and processes.

6.11 Hedging strategies are to be managed across PC.

6.12 CAPEX expenditure in PC ANZ with certainty of payment and timing of exposure can be hedged up to 100% - reporting to be captured and monitored separately to net cash flow exposure reporting.

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7. Authorised Instruments & Arrangements

7.1 The following lists the hedging instruments ***are*** currently authorised for managing currency risk:

(a) **Spot Deals** - spot deals are based on the current market price.

(b) **Forward Exchange Contracts -** a forward contract is the obligation to buy/sell a stipulated amount of currency at a predetermined rate on a specific date in the future. The forward exchange rate is determined by applying a premium/discount to the spot rate, based on the interest rate differentials between the two currencies and the time to settlement.

(c) **Market Orders** - a market order is an instruction given to a foreign exchange counterparty to automatically (without further reference to Paragon Care) buy or sell a currency when the market hits a predetermined level.

7.2 All hedging instruments relating to the management of currency risk must be denominated in the currencies of the underlying exposures.

7.3 **Currency Swaps** - a currency swap is the simultaneous sale and purchase of a currency pair, most often between spot and a specific date in the future that obligates the parties to trade at a fixed rate on both legs of the deal.

7.4 A **stop loss order –** whereby a market order is triggered when the market hits a predetermined level, may constitute cover under the policy only if it is permanent and cannot be moved further 'out of the money'.

7.5 **Purchased Foreign Currency Options -** a vanilla option (European) is the right but not the obligation to buy or sell a specific amount (notional) of a given currency at a specified price (strike) on a specific date in the future.

Options may only be sold under the following circumstances:

- To close out an existing purchased option
- To construct a foreign exchange collar or similar structured product

7.6 **Historic Rate Rolls (HRRs)** - the extension of the settlement date rather than requiring the existing derivative transaction to be cancelled and a new transaction entered into at current spot or forward rates.

- HRRs should only be used to align hedging instruments with forecast cash flows
- Under no circumstances should HRRs be used to unnecessarily defer out of the money hedges
- Rolled hedges are to be reported to Treasury on a monthly basis

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8. Accounting Policy - Application of AASB 9 Financial Instruments

8.1 PC designates hedging instruments with respect to foreign currency and interest rate risk, as cash flow hedges. At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objective and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, PC documents whether the hedging instrument that has been used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

8.2 The risk management objective of PC is to hedge all material, highly probable net foreign currency exposures in accordance with the hedge ratios outlined in section 6 of the Treasury Framework. The objective of hedge accounting is to represent the effect of the Company's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect the financial statements.

8.3 **Qualifying Criteria –** Hedge accounting requires that there be a relationship between the hedging instrument and a hedged item. Hedge accounting can only be applied to hedging relationships that meet the qualifying criteria.

8.4 Hedge accounting must meet the following qualifying criteria:

- There must be a hedging relationship that consists of an eligible hedging instrument and an eligible hedged item.
- At the inception of the hedging relationship the hedge instrument is designated against the hedge item on a first in first out basis and documented. The documentation has to include an identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets

the hedge effectiveness requirements (See Section 9 below).
- The hedge relationship qualifies for hedge accounting only if it meets each of the following three effectiveness requirements:

  - There is an economic relationship between the hedged item and the hedged instrument. i.e. the hedging instrument and the hedged item must be expected to move in opposite direction as a result of a change in hedge risk

  - The effect of credit risk does not 'dominate the value changes' that result from the economic relationship (this is an unlikely issue based on the hedging activity undertaken by PC, for example, inventory and forecast transactions would not have credit risk).

  - The hedge ratio used must meet the risk management hedge ratio outlined in the Treasury policy.

8.5 **Hedge Effectiveness Testing –** PC assesses hedge effectiveness on an ongoing basis using a prospective effectiveness assessment. The qualitative method used is the "Critical Terms Match Method

8.6 To ensure compliance with the critical terms method the following criteria must be met:
- The notional amount of the derivative is equal to the notional amount of the hedged item
- The maturity of the derivative equals the maturity of the hedged position
- The underlying risk of the derivative matches the underlying hedged risk
- The fair value of the derivative is zero at inception
- No change in counterparty credit risk
- Critical terms must be checked at each effectiveness testing date

8.7 **Accounting for Cash flow hedges –** The following steps are required to ensure the correct accounting for cash flow hedges:
- Determine the gain or loss on the hedging instrument and the hedge item at the end of each month,
- Calculate the effective and ineffective portion of the gain or loss on the hedging instrument,
- Recognise the effective portion of the gain or loss on the hedging instrument in other comprehensive income (OCI). This item in OCI is the cash flow hedge reserve in the balance sheet (equity),
- Recognise the ineffective portion of the gain or loss on the hedging instrument in profit or loss,
- Adjust cash flow hedge reserve when necessary. This step is done when hedged expected future cash flows affect profit or loss, or when a hedged forecast transaction occurs. An example would be the associated gain or loss on payment of purchased inventory included in the initial carrying cost of inventory (non-financial asset).

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9. Hedge Documentation

9.1 It is mandatory that prior to the placement of any hedges that the appropriate Hedge Designation, Documentation and Approval Form is completed and approved by either the Company Secretary, CFO or CEO.

9.2 The documentation has to include an identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements.

10. Further assistance

10.1 Any questions regarding this Policy should be directed to the Chief Financial Officer.

11. Approved and Adopted

11.1 This Policy was approved and adopted by the Board on 30 April 2025.

Appendix A – Transactional Limits

The Board has delegated authority to the below approved stakeholders to enter into transactions. These limits are subject to variation from time to time as approved by the Board.

Subject to counter-party limits, transaction limits are:

Role	Contracts	Annual Value	Individual Contract Value
Chief Executive Officer	Purchase of FX hedge & derivative products within policy	A$200m	A$50m
Chief Operating Officer	Purchase of FX hedge & derivative products within policy	A$200m	A$20m
Chief Financial Officer	Purchase of FX hedge & derivative products within policy	A$200m	A$10m
Co Sec / Group Treasury Manager	Purchase of FX hedge & derivative products within policy	A$60m	A$5m
Group Financial Controller	Purchase of FX hedge & derivative products within policy	A$60m	A$5m
Finance Manager NZ	Purchase of FX hedge & derivative products within policy	A$60m	A$5m