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Alchemia Limited

ACN 071 666 334

Notice of Annual General Meeting and Explanatory Statement

Tuesday 10 November 2015
3:00 p.m. (Melbourne time)
Grant Thornton
Level 30, Rialto North Tower
525 Collins Street
Melbourne VIC 3000
Australia

This Notice of Meeting is an important document and should be read in its entirety.
If you are in doubt as to what to do or how to vote, you should seek advice from your professional advisor.

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Part 1: Notice of Annual General Meeting

The Annual General Meeting of Members of Alchemia Limited (ACN 071 666 334) (the **Company** or **Alchemia**) will be held at Grant Thornton, Level 30, 525 Collins Street, Melbourne, Victoria, Australia on Tuesday, 10 November 2015 commencing at 3:00 p.m. (Melbourne time) for the purpose of considering and, if thought fit, passing the resolutions set out below.

Please note that additional information concerning the proposed resolutions is contained in the Explanatory Statement that accompanies and forms part of this Notice of Annual General Meeting. The 2015 Annual Report is available on the Company's website at for www.alchemia.com.au.

Ordinary business

Item 1 – Annual financial report, Directors' report and Auditor's report

To receive and consider the annual financial report of the Company, together with the Directors' report and Auditor's report, for the financial year ended 30 June 2015.

Item 2 – Election of Ken Poutakidis as Director

To consider and, if thought fit, pass the following resolution as an **ordinary** resolution:

> "*That Ken Poutakidis, a Director ceasing to hold office in accordance with rule 47(c) of the Company's Constitution, being eligible, is elected as a Director of the Company.*"

For information about this resolution, see the Explanatory Statement.

Item 3 – Remuneration Report

To consider and, if thought fit, pass the following resolution as a resolution under section 250R(2) Corporations Act:

> *"That the Remuneration Report, which forms part of the Directors' report, for the financial year ended 30 June 2015 be adopted."*

Voting Exclusions: The Company will disregard any votes cast on this resolution by or on behalf of certain Members. Details of the voting exclusions applicable to this resolution are set out in the "Voting Exclusions" section of the Notes below.

For information on the Remuneration Report, see the Explanatory Statement.

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Special business

Item 4 – Approval of Sale of Fondaparinux Intellectual Property

To consider and, if thought fit, pass the following resolution as an **ordinary** resolution:

> *"That, for the purposes of ASX Listing Rule 11.2, and for all other purposes, approval is given for the Company to dispose of its main undertaking whereby the Company will sell its worldwide intellectual property rights to fondaparinux sodium to Dr. Reddy's Laboratories SA, on the terms and conditions set out in this Notice of Meeting."*

For information on the approval of sale of fondaparinux intellectual property, see the Explanatory Statement.

Item 5 – Appointment of Auditor

To consider and, if thought fit, pass the following resolution as an **ordinary** resolution:

> *"That, for the purposes of s327B(1) of the Corporations Act 2001, and for all other purposes, Grant Thornton, having been nominated by a shareholder and consented in writing, be appointed as the auditor of the Company."*

For information on the appointment of auditor, see the Explanatory Statement.

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Notes

Voting Exclusions

Item 2 – Election of Director

There are no voting exclusions for this item.

Item 3 – Remuneration Report

The following persons may not vote, and the Company will disregard any votes cast by or on behalf of the following persons, on the resolution proposed in item 3 (***Resolution 3***):

- any member of the key management personnel for the Alchemia consolidated group (each, a ***KMP***) whose remuneration details are included in the Remuneration Report, and any closely related party of such a KMP;
- any other person to the extent that they are voting on behalf of such a KMP or closely related party; and
- any person who is a KMP as at the time Resolution 3 is voted on at the Meeting, and any closely related party of such a KMP, to the extent in either case that they are acting as a proxy,

unless the person votes as a proxy for someone who is entitled to vote and:

- the person is appointed as a proxy by writing that specifies how the proxy is to vote on Resolution 3; or
- the person is the Chair of the Meeting and the proxy appointment expressly authorises the Chair to exercise the proxy even if Resolution 3 is connected directly or indirectly with the remuneration of the KMP.

Item 4 – Approval of Sale of Fondaparinux Intellectual Property

The Company will disregard any votes cast on the resolution proposed in item 4 (***Resolution 4***) by:

- a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if this Resolution is passed and any associates of those persons; and
- the buyer, being Dr. Reddy's Laboratories SA, and any of its associates.

However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Item 5 – Change of External Auditor

There are no voting exclusions for this item.

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Explanatory Statement

The accompanying Explanatory Statement forms part of this Notice of Meeting and should be read in conjunction with it.

Independent Expert's Report

The Company, at its election, has engaged Deloitte Touche Tohmatsu ("Deloitte") to provide an Independent Expert's Report in respect of Resolution 4. Shareholders should carefully consider the Independent Expert's Report accompanying the Explanatory Statement. The Independent Expert's Report comments on the fairness and reasonableness of the proposed sale of fondaparinux intellectual property to Dr. Reddy's Laboratories SA.

Deloitte has concluded that the Proposed Sale is fair and reasonable to Shareholders.

Proxies

Please note that:

(a) a Member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy;

(b) a proxy need not be a Member of the Company;

(c) a Member may appoint a body corporate or an individual as its proxy;

(d) a body corporate appointed as a Member's proxy may appoint an individual as its representative to exercise any of the powers that the body may exercise as the Member's proxy; and

(e) Members entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms. If a Member appoints a body corporate as its proxy and the body corporate wishes to appoint an individual as its representative, a certificate of the appointment of corporate representative should be completed and lodged in the manner specified below.

If proxy holders vote on a poll, they must vote all directed proxies as directed. Any directed proxies which are not voted on a poll will automatically default to the Chair of the Meeting, who must vote the proxies as directed.

Proxy forms must be lodged by 3.00 p.m. (Melbourne time) on 8 November 2015.

Please note that if the Chair of the Meeting is appointed, or taken to be appointed, as a proxy, but the appointment does not specify the way to vote on a resolution, then the Chair intends to exercise the relevant Member's votes in favour of the relevant resolution (subject to the other provisions of these Notes, including the voting exclusions noted above).

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Corporate representatives

Any:

- corporate Member; or
- corporate proxy appointed by a Member,

which has appointed an individual to act as its corporate representative at the Annual General Meeting should provide that person with a certificate or letter executed in accordance with the *Corporations Act* authorising him or her to act as that company's representative. The authority may be sent to the Company or its share registry, Link Market Services, in advance of the Annual General Meeting or handed in at the Annual General Meeting when registering as a corporate representative. An Appointment of Corporate Representative form is available by contacting the Company's share registry, Link Market Services, on 1300 554 474 (within Australia) or +61 1300 554 474 (outside Australia).

If you have any queries on how to cast your votes, please call the Company's share registry, Link Market Services, 1300 554 474 (within Australia) or +61 1300 554 474 (outside Australia).

Attorneys

A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint an attorney to attend and vote at the Annual General Meeting on the Member's behalf. An attorney need not be a Member.

The power of attorney appointing the attorney must be duly executed and specify the name of each of the Member, the Company and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.

To be effective, the power of attorney must also be returned in the same manner, and by the same time, as proxy appointment forms.

Evidence of execution

If any instrument (including a proxy appointment form or appointment of corporate representative) returned to the Company is completed by an individual or a corporation under power of attorney, the power of attorney under which the instrument is signed, or a certified copy of that power of attorney, must accompany the instrument unless the power of attorney has previously been noted by the Company or the Company's share registry.

Voting entitlements

For the purpose of voting at the Annual General Meeting, the Directors have determined that all shares in the Company are taken to be held by the persons who are registered as holding them at 7.00 pm (Melbourne time) on 8 November 2015. The entitlement of Members to vote at the Annual General Meeting will be determined by reference to that time.

By Order of the Board:

Stephen Denaro
Company Secretary
9 October 2015

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Part 2: Explanatory Statement

1 Introduction

This Explanatory Statement has been prepared for the information of Members in connection with the resolutions to be considered by them at the Annual General Meeting to be held at Grant Thornton, 525 Collins Street, Melbourne, Victoria, Australia on Tuesday, 10 November 2015 commencing at 3:00 p.m. (Melbourne time).

The purpose of this Explanatory Statement is to provide Members with the information known to the Company that the Board considers material to their decision on whether to approve the resolutions in the accompanying Notice. This document is important and should be read in conjunction with all of the information contained in this booklet, including the Notice.

Capitalised terms in this Explanatory Statement are defined in the Glossary in Section 4.

2 Ordinary business

Item 1 – Annual financial report and Directors' and Auditor's reports

Background

The first item of business of the Annual General Meeting is to receive and consider the annual financial report of the Company, together with the Directors' report and Auditor's report, for the financial year ended 30 June 2015.

No resolution is required for this item of business. However, as a Member, you may submit a written question to Ernst & Young prior to the Annual General Meeting provided that the question relates to:

- the content of the Auditor's report; or
- the conduct of the audit in relation to the financial report.

All written questions must be received by the Company no later than five business days prior to the meeting.

All questions must be sent to the Company and may not be sent direct to Ernst & Young. The Company will then forward all questions to Ernst & Young.

Ernst & Young will be attending the Annual General Meeting and will answer written questions submitted prior to the meeting.

Ernst & Young will also be available to answer questions from Members relevant to:

- the conduct of the audit;
- the preparation and content of the Auditor's report;
- the accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- the independence of Ernst & Young in relation to the conduct of the audit.

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Item 2 – Election of Ken Poutakidis as Director

Background

The second item of business of the Annual General Meeting relates to the election of Ken Poutakidis as Director.

Rule 47(c) of the Constitution provides that any Director appointed by the Board under rule 47(c) of the Constitution either to fill a casual vacancy or as an addition to the Board may only hold office until the next annual general meeting of the Company and is then eligible for election at that meeting.

In accordance with rule 47(c) of the Constitution, Ken Poutakidis will cease to hold office at the Annual General Meeting and being eligible, has offered himself for election.

Details of Ken Poutakidis' experience and qualifications can be found below under the heading 'Candidate details'.

Candidate details

Election of Ken Poutakidis – Non-Executive Director and Chairman of the Board

Ken Poutakidis was appointed to the Board by the Directors under rule 47(c) of the Constitution on 26 June 2015.

Ken Poutakidis was appointed to the Board of Alchemia as a non-executive director on 26 June 2015, and appointed as Chairman on 9 July 2015. Mr Poutakidis is currently a principal of Dinimus Capital, an advisory firm offering investment services to emerging industrial companies. Mr Poutakidis has over 15 years of experience spanning Corporate Finance and Management Consultancy across Australia and Asia. His expertise lies in capital raising, mergers & acquisitions, corporate advisory, asset divestment and strategy development. He also has sector expertise in healthcare, industrials, engineering and financial services. Prior to joining Dinimus, Mr Poutakidis worked at leading equities firms. He has successfully established and operated his own consultancy firm and held senior roles at major corporations across a range of sectors. Ken Poutakidis is a member of Alchemia's Remuneration Committee, Nomination Committee and Audit & Risk Committee.

The Board has determined that Ken Poutakidis is an independent Director.

Directors' Recommendation

The Directors (excluding Ken Poutakidis) recommend that Members vote in favour of the re-election of Ken Poutakidis.

Item 3 - Remuneration Report

Background

Members are entitled to vote on the question whether the Remuneration Report as contained in the Directors' report is adopted.

Members should note that Resolution 3 is an "advisory only" resolution which does not bind the Directors or the Company.

However, the Corporations Act provides that if 25% or more of votes that are cast are voted against the adoption of the remuneration report at two consecutive annual general meetings, Members will be required to vote at the second of those annual general meetings on a resolution (a "spill resolution") that another meeting be held within 90 days at which

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all of the Directors who were in office at the date of the approval of the applicable directors' report must stand for re-election.

The resolution to approve the remuneration report was passed unanimously on a show of hands at the 2014 annual general meeting.

Following consideration of the Remuneration Report, the Chair of the Meeting will give Members a reasonable opportunity to ask questions about, or make comments on, the Remuneration Report.

The Board will take the outcome of the vote into consideration when reviewing remuneration practices and policies of the Company.

Directors' Recommendation

As the resolution relates to matters including the remuneration of the Directors, the Board, as a matter of corporate governance and in accordance with the spirit of section 250R(4) Corporations Act, makes no recommendation regarding this resolution.

3 Special Business

Item 4 – Approval of Sale of Fondaparinux

Introduction

On 25 September 2015, the Company announced that it had entered into a binding term sheet ("Term Sheet") with Dr. Reddy's Laboratories SA ("Dr. Reddy's") as the buyer, under which the Company as the Seller, will sell its worldwide intellectual property rights, including the right to manufacture, use, sell, distribute or commercialise, to fondaparinux sodium in API and finished form ("Proposed Sale").

The Proposed Sale is conditional upon receiving shareholder approval for the transaction to proceed. The transaction is described in the section below.

Background

1. Generic Fondaparinux Sodium

Fondaparinux is a generic version of the anticoagulant drug Arixtra®, which is currently owned by Mylan. Arixtra® is approved in the US and Europe for the treatment of deep vein thrombosis (DVT) and pulmonary embolism (PE) and is also indicated for the prevention of DVT after major surgery, such as knee and hip replacement. Fondaparinux is recommended by the American College of Chest Physicians and received the European Society of Cardiology's highest recommendation for use in acute coronary syndrome.

Fondaparinux is a synthetic pentasaccharide factor Xa inhibitor which is difficult to manufacture on a commercial scale. Alchemia has granted patents over novel synthetic pathways that prevent others from using Alchemia's proprietary process to manufacture fondaparinux until at least 2022.

2. Collaboration with Dr. Reddy's

In 2007, Alchemia granted Dr. Reddy's non-exclusive rights to the manufacture of fondaparinux sodium in API form, and exclusive rights to commercialise and market fondaparinux in North America. In exchange for these manufacturing and marketing rights, Alchemia would receive 50% of the net profit generated from sales of fondaparinux in North

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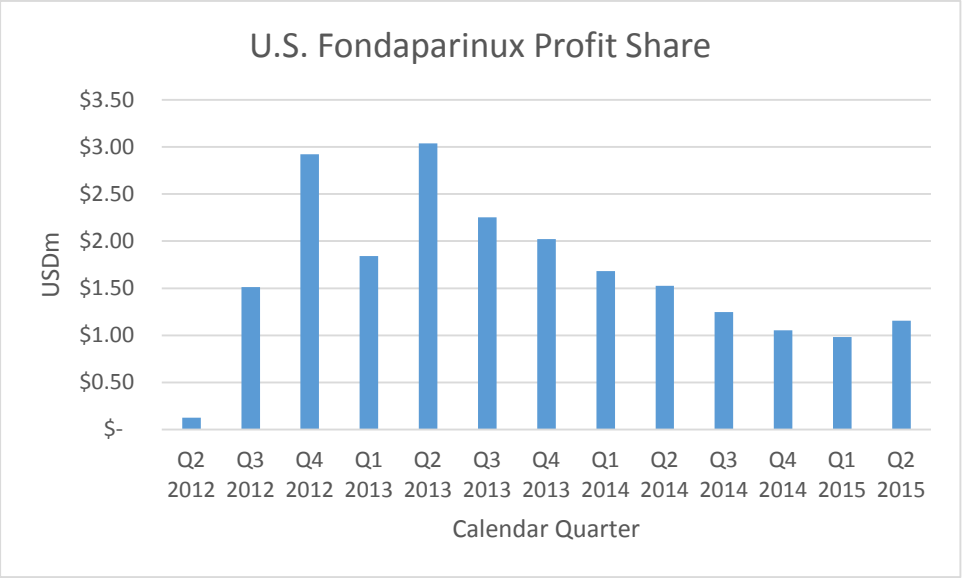
America. Dr. Reddy's would be responsible for finishing of the product, all regulatory filings, and market launch.

In March 2009, following the expiry of the branded drug's data exclusivity period, Dr. Reddy's filed an Abbreviated New Drug Application (ANDA) for the approval of fondaparinux manufactured using Alchemia's proprietary process. This application was approved in July 2011 and sale of our drug in the US market commenced soon after.

In 2012, the Company granted Dr. Reddy's exclusive rights to market fondaparinux in territories other than North America ("Rest of World"), in exchange for an undisclosed share of the net profits generated from sales of fondaparinux in the Rest of World. In addition to the US, fondaparinux is currently being sold in Canada and India, however sales of fondaparinux in these territories are yet to generate any profits, and consequently the Company has not received any revenues from sales of fondaparinux throughout Rest of World. Fondaparinux is yet to be launched in any other territory.

3. US Profit Share financials

From market launch to 30 June 2015, the Company has received a total of US$21.4 million revenues from its share of net profits generated in the US as outlined in the chart below:



The revenues in the chart above are net of (after) the Company's total contribution of US$5 million towards manufacturing process improvements, which occurred over eight quarters (Q3 2012 to Q4 2014 inclusive) at US$0.5 million per quarter.

4. Competitive Landscape - Fondaparinux

Fondaparinux was first developed by Sanofi-Synthelabo. It was the first in a new class of antithrombotic agents and, due to its superior efficacy and safety, was expected to displace Lovenox which was the gold standard in the space. It was approved by the FDA in 2001 for the prophylaxis of deep-vein thrombosis, which may lead to pulmonary embolism in patients undergoing hip-fracture surgery, hip-replacement surgery, and knee-replacement surgery, and launched in 2002 under the brand name Arixtra®.

At the time of launch, sales of Lovenox were US$1.3 billion. It is believed that Sanofi-Synthelabo intended to pursue approvals for the same indications as Lovenox and analysts were predicting sales in excess of US$1 billion per annum, after obtaining these additional

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approvals. However, despite its superior safety and efficacy, the product fell far short of expectations.

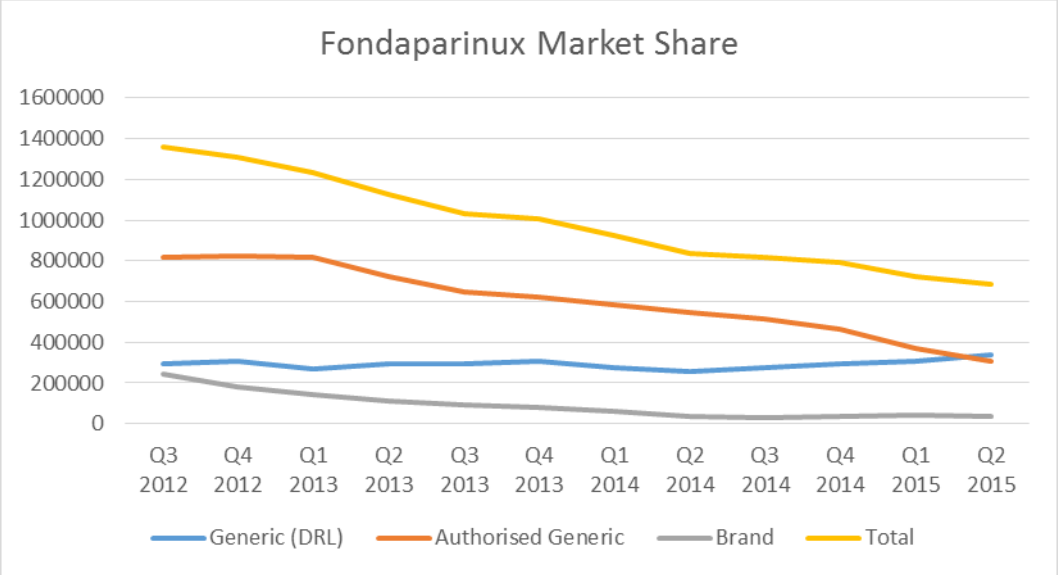
In 2004, Sanofi-Synthelabo acquired Aventis, the manufacturer of Lovenox, and as a result of anti-trust requirements, sold its interests in competing heparin products, including Arixtra® and Fraxiparine®, to GlaxoSmithKline ("GSK"). GSK granted rights to an Authorised Generic (AG) version of Arixtra® to Apotex in August 2011.

In September 2013, GSK agreed to sell its thrombosis brands, Arixtra® and Fraxiparine®, and the Notre-Dame de Bondeville (NDB) manufacturing site to The Aspen Group (Aspen).

In September 2014, Mylan announced that it had entered into an agreement to acquire the U.S. commercialization, marketing and intellectual property rights relating to Arixtra® (fondaparinux sodium) Injection and the AG of Arixtra® from Aspen. Mylan began selling Arixtra® in the U.S. through an interim distribution arrangement with Aspen and the authorised generic was transitioned to Mylan by 31 December 2014.

Today, fondaparinux is sold in the US by Mylan (Brand and AG) and Dr. Reddy's (generic) only. The Company is currently aware of one ANDA and eight DMFs that have been filed, which may lead to approval for additional generics of fondaparinux to enter the market in the future.

The chart below depicts the US sales volumes for fondaparinux since 1 January 2013 (quarters are calendar year):



Source: IMS data

The chart shows that annual fondaparinux volumes sold have fallen by 40% over the last two years from the year ended 30 June 2013 to 30 June 2015. Similarly, net sales of fondaparinux in the US for Dr. Reddy's have fallen by 37%, on average, over the same time period. This fall in net sales is mainly attributable to pricing pressure, as volumes sold by Dr. Reddy's have marginally increased across this time frame, despite the downturn of the fondaparinux market generally.

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5. Competitive Landscape – Anti-coagulants

The major competing injectable anti-coagulant to fondaparinux is enoxaparin (fractionated heparin), which commands the vast majority of the anti-coagulant market. Enoxaparin is also experiencing pricing pressure as new generic players enter the market, with the most recent entrant being Teva Pharmaceuticals, who launched their generic of enoxaparin earlier this year.

In addition to the injectable anti-coagulants, there are also new generation oral anti-coagulants which include rivaroxaban, apixaban (direct factor Xa inhibitors) and dabigatran etexilate (direct thrombin inhibitor). These new generation oral anti-coagulants are steadily increasing their share of the anti-coagulant market.

Key Terms of the Transaction

Upon Completion of the transaction the Company will dispose of, and Dr. Reddy's will acquire, the Company's worldwide intellectual property rights relating to fondaparinux sodium.

1. Consideration

The purchase price being paid by Dr. Reddy's for the Proposed Sale is US$17,500,000 ("Purchase Price"), payable in cash, at the time that all conditions are met and the asset purchase agreement is signed ("Closing").

2. Conditions Precedent and Transaction Closing

The Closing of the transaction is anticipated to occur shortly after the required shareholder approval has been obtained, providing all conditions precedent have been met. The following conditions precedent are required to be met in order for the sale to close:

- Approval of the transaction by the board of directors and the shareholders of the Seller (including any approval required by the Australian Stock Exchange);
- Transfer of Patents, Technology and Know-How; and
- Execution of ancillary agreements such as a Patent Assignment Agreement and associated documents.

3. Asset Purchase Agreement

The parties intend to record the binding terms of the transaction in an Asset Purchase Agreement (the "Agreement") for transfer of the fondaparinux asset. The parties agree that the Agreement will include customary clauses including representations, warranties, and indemnities. The Seller will give its further assurances to cooperate with Dr Reddy's in relation to registration and transfer of the fondaparinux asset (including the Patents).

4. Other Material Terms of the Transaction

In the event of and subject to effective Closing, the Seller shall not be entitled to quarter profit share on and from 1 July 2015.

For avoidance of doubt, the fondaparinux asset will be transferred to Dr Reddy's and there would be no residual liability. The asset would entirely belong to Dr Reddy's in perpetuity with no further profit share or any consideration whatsoever to the Seller.

All revenues generated from all business contracts with third parties in regard to the asset from all markets including the USA shall immediately vest with Dr Reddy's on execution of the Agreement.

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Rationale for the Proposed Sale

The Company's revenues from fondaparinux sales have been consistently falling over the last two years, as the charts above demonstrate. The reason for the decline is largely due to increased competition from other forms of anti-coagulants, particularly as the new version of oral anti-coagulants continue to increase their market share, and aggressive competition from the AG via Apotex and now Mylan. Both of these factors have meant pricing is consistently under pressure as Dr. Reddy's attempts to maintain their market share. In addition, the branded product asset (Arixtra®) has been sold many times over, which has resulted in fluctuating marketing efforts to promote this brand, upon which sales of the generic rely.

The Company is yet to see any revenues from sales of fondaparinux in Rest of World, and the market launch in Europe has been significantly delayed beyond original expectations.

Fondaparinux has been the Company's lead asset for most of this year, and accordingly the Company has been focusing its efforts on securing and maximizing value of this asset going forward for our shareholders. Efforts have included recent visits to Dr. Reddy's to perform due diligence on the profit share financials, their manufacturing processes and cost of goods sold. The Company has also reviewed and sought advice on its contractual arrangements. The Company has explored several opportunities for the sale and/or licensing of this asset to interested parties in an effort to understand this asset's potential market value. The offer by Dr. Reddy's was the highest offer received, and represented the lowest risk of completion. This was due to Dr. Reddy's ability to pay the consideration on closing due to their sizeable financial position, that all due diligence was complete at the time the offer was made, and the relationship the Company has built with Dr. Reddy's over the past few years.

Due to the uncertainty over future fondaparinux revenues, the costs associated with effectively managing this asset going forward, and the fact that this offer was the highest of several offers received and represented the greatest chance of successful completion, the Directors believe that it is in the best interests of the Company and its Members to proceed with the Proposed Sale. In addition, the USD:AUD exchange rate (approximately 0.70:1.00) is favourable at the current time.

Potential Advantages of the Proposed Sale

The Directors believe the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on Resolution 4:

- The Company will receive an 'up-front' cash payment of USD17.5 million (approximately AUD24.5 million) for the sale of the fondaparinux intellectual property rights, representing what the Board considers to be an appropriate valuation for this asset. There is no deferred or conditional consideration.
- Dr. Reddy's (the buyer) is a large pharmaceutical company, listed on the NYSE, who is a reputable buyer that has completed all of its due diligence with respect to this transaction, and therefore the Directors believe there is a very high probability that this transaction will complete, provided it receives the required shareholder approval.
- The sale of this asset will crystallise a value for the Company's entitlement to a share of future fondaparinux net profits. This will remove the ongoing risk that the Company's revenues will be materially impacted by increased competition,

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both from other anti-coagulants and new generic fondaparinux entrants, going forward.

- The sale of the this asset avoids the risk that Dr. Reddy's may decide to exercise their right to terminate the manufacturing and/or the US development, commercialisation and marketing agreement, on or before April 2017, in accordance with the terms of the applicable contracts.
- The Company will save both the costs associated with the employment of resources to effectively monitor and manage the relationship with Dr. Reddy's and associated profit share contracts, and the costs of maintaining the fondaparinux patent portfolio.
- Shareholders may benefit from the potential distribution of the cash consideration, the details of which are currently being worked through by the Board.

Potential Disadvantages of the Proposed Sale

The Directors consider that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on Resolution 4:

- The Company will lose the opportunity to continue to obtain a share of net profits from fondaparinux sales, both in the US and any other territories which may become profitable in the future.
- This sale constitutes a disposal of the Company's main undertaking, which may not be consistent with the objectives of all Shareholders.

Shareholder Approval

ASX Listing Rule 11.2 provides that where a company proposes to make a significant change in the nature or scale of its activities which involves the disposal of its main undertaking, it must first obtain approval of its shareholders.

ASX Listing Rule 11.2 is relevant to this transaction as it involves the potential disposal of the Company's main undertaking, being its only or main business activity. Since the Company ceased all development of its oncology assets following the HA-Irinotecan Phase III trial failure, and has divested its VAST technology, the Company considers its main business activity to be collecting the revenues from sales of its generic fondaparinux under its agreements with Dr. Reddy's. The only other revenues being received by the Company are from bank interest, the R&D tax incentive refund revenues, and small amounts of other income.

Accordingly, Resolution 4 seeks Shareholder approval for the Proposed Sale. The Proposed Sale requires approval by way of an ordinary resolution of the Members of the Company.

Independent Experts Report

The Directors have sought an independent expert's report ("IER") on the transaction from Deloitte, to assist shareholders in their decision on how to vote. The IER is attached to this Notice of Meeting. It should be noted that this transaction is not with a related party to the Company, and therefore an IER was not required to be provided under the ASX Listing Rules, however the Directors' deem an IER appropriate in the circunstances and in the best interests of the Company and its Members.

Deloitte has concluded that the Proposed Sale is fair and reasonable to Members.

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Effect of Proposed Sale on the Company

Upon Completion, the Proposed Sale will constitute a significant change to the nature and scale of the Company's activities.

As a result of the Proposed Sale, the Company will no longer earn any revenues from the net profit share for sales of fondaparinux in the US, or Rest of World. The Company's revenues will be limited to bank interest going forward, and any claims made under the R&D Tax Incentive Program for the 2016 financial year.

The Proposed Sale will have the effect of increasing the Company's cash reserves by US$17.3 million (consideration net of transaction fees). The Company will report revenue from a gain on sale of fondaparinux intellectual property of US$17.5 million and expenses from strategic advisory fees of US$0.2 million, and other costs customary in transactions of this nature, in the statement of financial performance for the year ended 30 June 2016.

The pro-forma balance sheet below shows the impact of the Proposed Sale on the financial position of the consolidated group as at 30 June 2015, assuming the Proposed Sale had been completed by that date:

Consolidated Pro-forma Balance Sheet As at 30 June 2015	Audited A$'000	Pro-forma & unaudited A$'000
Cash and short term deposits*	5,138	29,852
Accounts receivable	8,084	8,084
Prepayments	605	605
Total current assets	**13,817**	**38,541**
Property, plant & equipment	162	162
Deferred tax asset	653	653
Total non-current assets	**815**	**815**
Total assets	**14,632**	**39,356**
Trade payables (including current taxes)	842	842
Provisions	2,280	2,280
Total current liabilities	**3,122**	**3,122**
Deferred tax liability	1	1
Total non-current liabilities	**1**	**1**
Total liabilities	**3,123**	**3,123**
Net assets	**11,509**	**36,233**
Equity and accumulated losses	**11,509**	**36,233**

**Assumes net consideration of US$17.3 million at an exchange rate of 0.70:1.00.*

There are no changes proposed to the Board of Directors and senior management directly as a result of this Proposed Sale. However, it should be noted, that it is the Company's ntention that the positions of Chief Financial Officer and Chief Scientific Officer/Vice President - Oncology be made redundant by 31 October 2015.

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If the Proposed Sale goes ahead, this will constitute a disposal of the Company's main undertaking, and will mean the majority of the Company's assets will be cash, as the above pro-forma balance sheet demonstrates. Once the main undertaking is disposed of, the Company will have six months to either demonstrate its compliance with Chapter 12 of ASX Listing Rules by completing the required formalities for winding up the Company, or to identify a new undertaking. If this is not done, the ASX will generally exercise its discretion under ASX Listing Rules 12.3, 17.3.2 and/or 17.3.4 to suspend the quotation of its securities at the end of that six month period. The suspension will continue until the entity makes an announcement acceptable to ASX about its future activities.

Use of Funds

The Company is currently reviewing structures that will allow for a potential return of the consideration to shareholders. Members will be advised of the Directors recommendation with respect to a return to Members in due course.

Tax Impact

Recent tax advice has confirmed that the Company's tax losses are able to be used to fully offset the consideration revenue to be received from the Proposed Sale. This is on the basis that the Company continues to satisfy the Continuity of Ownership Test ("COT") with respect to its losses, at all times until they are utilised.

Company's Intentions Post Completion

The Company's activities will be limited to determining the best way of potentially distributing reserves to Members, and investigating the best options for the Company going forward.

Company's Plans if the Proposed Sale does not Proceed

The Company's activities will remain the collection of fondaparinux revenues, via its share of net profits with Dr. Reddy's, to the extent fondaparinux remains profitable. Given the uncertainty of fondaparinux sales in the future, the Company cannot reliably forecast what those revenues might be going forward. The Company would plan to return a regular dividend stream over time to Members to the extent future fondaparinux revenues exceeded the Company's expenses of ongoing operating costs.

Share Price Data

The Company's share price data (ASX:ACL) is as follows:

Date	Closing Share Price (AUcents)
30 June 2014	56 c
24 October 2014 (before announcement of Phase III result)	62 c
27 October 2014 (after announcement of Phase III result)	11 c
31 December 2014	09 c
31 March 2015	06 c
30 June 2015	03 c
22 September 2015	04 c

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Indicative Timetable

Subject to ASX Listing Rule and Corporations Act requirements, the Company anticipates completion of the Proposed Sale will be in accordance with the following timetable:

Event	Target Date
Annual General Meeting to approve Proposed Sale	11 November 2015
Signing of Asset Purchase Agreement	13 November 2015
Completion of transfer of all patents, technology and know-how	30 November 2015
Completion of Proposed Sale	30 November 2015

Directors' Interests and Recommendation

The Directors do not have any material interest in the outcome of the resolution other than as a result of their interest arising solely in their capacity of shareholders.

In consideration of all of the above, the Directors consider the Proposed Sale is in the best interests of both the Company and its Members, and unanimously recommend that Members vote in favour of the approval of the sale of fondaparinux intellectual property.

Item 5 – Appointment of Auditor

Background

Following the strategic review of the Company's assets and operations, the Company embarked on a significant corporate restructuring and cost cutting exercise. As the Company's operations are considerably smaller today, the board has decided it is more appropriate to engage a smaller external audit firm who can provide the independent audit services required at a reduced cost to the Company.

In accordance with section 329(5) of the Corporations Act, Ernst & Young have resigned as auditor of the Company effective from the date of close of this Annual General Meeting, subject to having received ASICs approval of the resignation.

In accordance with section 328B of the Corporations Act, Ms Susan Aitken, as a shareholder of the Company, has nominated Grant Thornton as auditor of the Company. A copy of this nomination attached to this Notice (refer Schedule One).

In accordance with section 328A of the Corporations Act, Grant Thornton has consented in writing to the appointment.

Shareholder Approval

Under section 327B of the Corporations Act, shareholder approval is required for the appointment of a new auditor. Subject to this approval being obtained, the appointment of Grant Thornton will become effective from the close of this Annual General Meeting.

Directors' Recommendation

The Directors unanimously recommend that Members vote in favour of the appointment of Grant Thornton as external auditor of the Company.

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4 Glossary

In this Explanatory Statement, and in the Notice, the following terms have the following meaning unless the context otherwise requires:

Annual General Meeting or **Meeting** means the annual general meeting of the Members convened pursuant to the Notice for the purposes of considering the resolutions set out in the Notice.

Annual Report means the annual financial report of the Company for the year ended 30 June 2015.

ANDA means Abbreviated New Drug Application for a U.S. generic drug approval for an existing licensed medication or approved drug.

API means Active Pharmaceutical Ingredient.

ASIC means the Australian Securities & Investment Commission.

ASX means the Australian Securities Exchange.

ASX Listing Rules the official listing rules of the ASX.

Auditor means the auditor appointed by the Company.

Board means board of directors of the Company.

Company means Alchemia Limited.

Constitution means the constitution of the Company.

Corporations Act means *Corporations Act 2001* (Cth).

Director means a director of the Company.

DMF means a Drug Master File (DMF) is a submission to the U.S. Food and Drug Administration (US FDA) that may be used to provide confidential detailed information about facilities, processes, or articles used in the manufacturing, processing, packaging, and storing of one or more human drugs.

Explanatory Statement means this explanatory statement, containing information in regarding the matters set out in the Notice in respect of which Member approval is sought.

IER means the Independent Expert Report from Deloitte attached to this Notice of Meeting.

KMP means a member of the Key Management Personnel.

Member means holder of Shares.

Notice means the notice in Part 1 pursuant to which the Annual General Meeting is convened.

NYSE means the New York Stock Exchange.

Remuneration Report means the section of the Directors' report contained in the annual financial report of the Company for the year ended 30 June 2015 entitled "Remuneration Report".

In addition, certain other defined terms are defined in other places throughout the Explanatory Statement.

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22 September 2015

Company Secretary
Alchemia Limited
3 Hi-Tech Court
Eight Mile Plains Qld 4113

Dear Company Secretary

Re: Nomination of appointment as Auditor

I, Susan Margaret Aitken, being a shareholder of Alchemia Limited (Alchemia), hereby give written notice pursuant to Section 328B(1) of the Corporations Act, 2001 of the nomination of Grant Thornton for appointment as Auditor of Alchemia at the next shareholder Annual General Meeting.

Yours faithfully

Susan Aitken
Shareholder

Deloitte.

Alchemia Limited

Independent expert's report and Financial Services Guide

6 October 2015

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Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us. The person who provides the advice is an Authorised Representative (AR) of Deloitte Corporate Finance Pty Limited (DCF), which authorises the AR to distribute this FSG. Their AR number is included in the report which accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately AUD50,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed transaction between Alchemia Limited and Dr. Reddy's Laboratories Ltd (the Proposed Sale).

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer	Financial Ombudsman Services
PO Box N250 Grosvenor Place Sydney NSW 1220 complaints@deloitte.com.au Fax: +61 2 9255 8434	GPO Box 3 Melbourne VIC 3001 info@fos.org.au www.fos.org.au Tel: 1300 780 808 Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

6 October 2015

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

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The Directors
Alchemia Limited
3 Hi-Tech Court, Brisbane Technology Park
Eight Mile Plains QLD 4113

6 October 2015

Dear Directors

Independent expert's report

Introduction

On 25 September 2015, Alchemia Limited (Alchemia or the Company) announced that it had agreed to sell the worldwide exclusive intellectual property rights to its generic fondaparinux drug (Fonda IP) as well as its rights to profit share from fondaparinux sales (Profit Share Rights) to Dr. Reddy's Laboratories SA, a subsidiary of Dr. Reddy's Laboratories Limited (Dr. Reddy's) for USD17.5 million (the Proposed Sale).

Purpose of the report

The Directors of Alchemia have requested that Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) provide an independent expert's report advising whether, in our opinion, the Proposed Sale is fair and reasonable.

We have prepared this report having regard to Chapter 11 of the Listing Rules and Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 and ASIC Regulatory Guide 112.

This report is to be included in the notice of the meeting at which Alchemia's shareholders (Shareholders) will vote on whether to approve the Proposed Sale (the Notice of Meeting), which will be sent to Shareholders, and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Sale. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Shareholders and Alchemia, in respect of this report, including any errors or omissions however caused.

Basis of evaluation

Guidance

In undertaking the work associated with this report, we have had regard to ASIC Regulatory Guide 111 in relation to the content of expert's report and ASIC Regulatory Guide 112 in respect of the independence of experts.

ASIC Regulatory Guide 111

Whilst ASIC Regulatory Guide 111 does not specifically prescribe the form of assessment of an expert in relation to an asset sale between unrelated parties (such as the Proposed Sale), it provides guidance in relation to the content of independent expert's reports prepared for a range of transactions.

Fairness

ASIC Regulatory Guide 111 defines an offer for securities, in the context of mergers and acquisitions, as being fair if the value of the offer price is equal to or greater than the value of the securities the subject of the offer.

We have assessed whether the Proposed Sale is fair by comparing the consideration offered with the collective value of the Fonda IP and the Profit Share Rights (together the Assets).

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The Assets have been valued at fair market value, which we have defined as the amount at which these assets would be expected to change hands between a knowledgeable and willing but not anxious buyer and a knowledgeable and willing but not anxious seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of the Assets has not been premised on the existence of a special purchaser.

We have considered the fairness of the Proposed Sale by comparing the value of the Assets with the value of the consideration to be received from Dr. Reddy's.

Reasonablness

ASIC Regulatory Guide 111 considers an offer to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, Shareholders should accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Proposed Sale we considered the following significant factors in addition to determining whether the Proposed Sale is fair:

- the financial situation and solvency of Alchemia
- the alternative options available to Alchemia and the likelihood of those options occurring
- the value to an alternative bidder and the likelihood of an alternative offer being made
- any special value of the Assets to Dr. Reddy's
- other implications associated with Alchemia Shareholders rejecting the Proposed Sale.

Summary and conclusion

In our opinion the Proposed Sale is fair and reasonable. In arriving at this opinion, we have had regard to the following factors.

The Proposed Sale is fair

We consider the Proposed Sale is fair if the value of the consideration is equal to or greater than the value of the securities subject to the offer.

Set out in the table below is a comparison of our assessment of the fair market value of the Assets with the consideration offered by Dr. Reddy's.

Table 1

	Low USD million	High USD million
Estimated fair market value of the Assets (Section 3)	16.0	18.0
Fair market value of consideration offered	17.5	

Notes
1. USD – US dollars, AUD – Australian dollars
2. Amounts stated in this report may be subject to rounding
Source: Deloitte Corporate Finance analysis

The consideration offered by Dr. Reddy's is within the range of our estimate of the fair market value of the Assets. Accordingly it is our opinion that the Proposed Sale is fair.

Valuation of the Assets

We have estimated the fair market value of the Assets by applying the discounted cash flow method, which estimates the value of the Assets by discounting the estimated future cash flows projected to be generated to their present value.

The discounted cash flow method requires the determination of an appropriate discount rate and the projection of future cash flows. We selected a nominal after tax discount rate in the range of 11.0% to 13.0% to discount the

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estimated future cash flows generated by the Assets to their present value. A financial model prepared by the management of Alchemia formed the basis of our valuation of the Assets under the discounted cash flow method. We have undertaken sufficient work to assess whether the financial projections and the underlying model, modified where we considered appropriate, are suitable for the purposes of assessing the fairness and reasonableness of the Proposed Sale in accordance with ASIC Regulatory Guide 111.

The value of the Assets is constrained by the remaining life of the patents underpinning the Fonda IP, and the Assets are reliant on key agreements with Dr. Reddy's. Fondaparinux has yet to return a profit to Alchemia from markets in which it is currently sold other than the US. In the US the overall fondaparinux market has halved over the past three years and Dr Reddy's selling prices have been declining at a compound annual rate of circa 25%. Dr. Reddy's faces significant competition within the fondaparinux market as well as the wider anticoagulant industry with additional generic and novel drugs expected to impact market share going forward. As a result of the lack of profitable non-US markets, expected competition and remaining patent life, it is unlikely that other international markets will to deliver a material benefit for Alchemia.

In light of the above, we have considered a number of valuation scenarios, adopting a range of assumptions regarding projected sales volumes and average net selling prices to be achieved. These are summarised in the table below (refer to Section 3.3 for further details).

Table 2

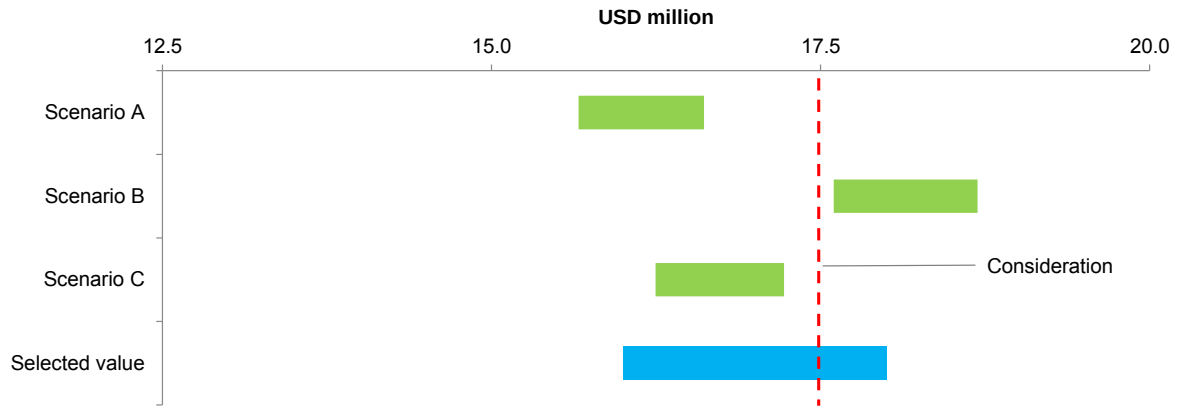
	Scenario A	Scenario B	Scenario C
Market size (volume)	20% decline in FY2016, 10% decline in FY2017 and FY2018, 5% decline in FY2019 and FY2020, followed by 2.5% per annum decline thereafter	15% decline in FY2016, 7.5% decline in FY2017 and FY2018, 3.75% decline in FY2019 and FY2020, followed by 1.88% per annum decline thereafter	Same as Scenario B
Average net selling price (Dr. Reddy's)	10% decrease in FY2016, 5% decrease in FY2017, steady thereafter	Same as Scenario A	10% decrease in FY2016, 5% decrease in FY2017 and FY2018, steady thereafter

Source: Deloitte Corporate Finance analysis

In Scenario A, we have selected a 20% rate of decline in the overall fondaparinux market in the US in FY2016, having regard to the historical decrease in volumes. We have assumed the rate of decline tapers down over our projection period. In Scenario B we have assumed a slower decline of 15% in FY2016, tapering off gradually. Both these scenarios assume average net selling prices decline (albeit at a rate significantly less than the historical decline) at a decreasing rate, and remain steady after two years of decline. Scenario C represents an alternative to Scenario B, where the decline in average net selling prices continues for one further year. In other words, the price decease needed to achieve the higher volumes (relative to Scenario A) is greater than Scenario A. All scenarios assume the decay in the market is arrested, with sales plateauing and prices stabilising.

The figure below sets out the range of valuation outcomes under the various scenarios along with our selected valuation range of the Assets, compared to the consideration offered under the Proposed Sale.

Figure 1



Source: Deloitte Corporate Finance analysis

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Scenario B represents the highest range of value, and is above the consideration under the Proposed Sale. The value outcome under Scenario A overlaps with that under Scenario C. Our selected value range covers the range under Scenario C and spans Scenarios A and B, acknowledging that the decline in volumes could be between our assumed 15% and 20% decline. We consider there is significant downside risk to the projections in all of these scenarios as a result of:

- the market volumes continuing to decline at a greater rate than assumed as a result of competition in the fondaparinux market as well as the broader anticoagulants market
- continued reductions in net sales prices beyond those assumed
- challenges in continuing to renew the manufacturing agreement with Dr Reddy's on comparable unit costs in the face of declining sales volumes and margins.

The above values are sensitive to the assumed term of the cash flow projections in relation to the Assets. Our valuation of the Assets is based on eight years of cash flow projections, on the assumption that the agreements underpinning the Assets are extended until the end of the life of patents that protect the Fonda IP. The following table sets out the value outcomes should the life of the Assets be shorter due to key agreements not being extended (refer to Sections 2.2.1 and 3.3.1 for a discussion of the key terms of the relevant agreements and the rationale for the assumptions adopted regarding the projection period, respectively).

Table 3

Scenario		2 years		4 years		6 years	
		Low	High	Low	High	Low	High
A	USD million	5.8	5.9	10.0	10.3	13.2	13.8
B	USD million	6.3	6.4	11.0	11.4	14.7	15.4
C	USD million	6.3	6.4	10.4	10.8	13.7	14.3

Source: Deloitte Corporate Finance analysis
Notes:
*1. Base case values of each scenario depicted in Figure **1** reflects 8 years of projected cash flows*
2. High and low values correspond to discount rates of 11.0% and 13.0% respectively

We note that so long as the agreements represent a profitable enterprise to Dr. Reddy's there is a low likelihood the agreements would not be extended.

This sensitivity analysis ignores any probability-weighted cash flows beyond the specified term and the potential value upside from the Company finding an alternate manufacturing and distribution partner. This is on the basis that the short remaining patent life and significant technology transfer cost is likely to deter a potential alternative partner.

We have not included any profit share from non-US markets within our projected cash flows in the three scenarios above, having regard to the historical market size and local pricing regimes in various regions, along with the current status of regulatory approval of Dr. Reddy's, expected future competition and remaining patent life. However, if we were to assume non-US markets for Alchemia were 10% of the historical US market size, the markets were immediately profitable at the same rate as in the US, and that Dr. Reddy's were to enter those markets in FY2017, with sales ramping up over three years, and this scenario had the same risk profile (and discount rate) as for the US sales, the value of the Assets would increase by approximately USD0.9 million. We consider this scenario unlikely.

The Proposed Sale is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Sale is reasonable. We also note the following factors.

The Proposed Sale crystallises the value of the Assets imnediately and removes uncertainty regarding future profits

The Proposed Sale allows the Company to realise the value of the Assets immediately for a known, up-front consideration. The cash consideration provides certainty over the quantum to be received, and removes risk associated with generating future profits from fondaparinux sales in light of increasing competition and a declining market.

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The Proposed Sale represents the highest offer, and we consider a superior offer is unlikely

The Proposed Sale is the result of a sales process run by the Company and represents the highest offer received. It is unlikely that a superior offer for the Assets will emerge.

Special value to Dr. Reddy's

Dr. Reddy's may be able to realise a value greater than that implied by the consideration, by virtue of unique synergies available to it, including the simplification of its fondaparinux obligations and a reduction in administrative burden (potentially costs), or greater investment in marketing (incentivised by 100% of the profit share). However we note that the consideration is at the high end of our range of value of the Assets and there appears to be no compelling argument for Dr. Reddy's to share any unique synergy benefits beyond the consideration price offered, particularly given the relative bargaining power of the parties.

The Proposed Sale may enable a cash return to Shareholders

The cash received from sale of the Assets, net of transaction costs, would imply a value of approximately AUD0.075 per Alchemia share. On this basis, the Company would have cash available in the event the Company decided to return cash to Shareholders. The Company is reviewing structures that may allow for a potential return to shareholders, which may not be an immediate cash distribution.

Alternatives to the Proposed Sale

The alternative to a sale of the Assets is for the Company to continue to monitor and manage the relationship with Dr. Reddy's and related agreements. This will require the Company to devote resources to this end and incur the costs of those resources and any costs of upkeep of the patents underpinning the Fonda IP. In all likelihood this will occur within the current listed vehicle, meaning the Shareholders' return will also continue to be eroded by listing and associated governance costs. Our valuation does not incorporate such listing and associated governance costs as these costs will not necessarily be avoided if the Proposed Sale proceeds, and are not an incremental saving directly attributable to the Proposed Sale. However, the Proposed Sale may enable a reduction in future costs of this nature.

Shareholders forego the opportunity to participate in potential upside from non-US markets

If the Proposed Sale proceeds, Shareholders will forego the opportunity to participate in potential upside from profit shares from non-US markets (and/or a potential decline in the market being less than that assumed in our valuation). However, we consider it unlikely that other (non-US) markets represent a material benefit for Alchemia, due to local pricing or small market sizes, status of regulatory approvals and remaining patent life, along with expected competition. Refer to Section 2.2.3 for our consideration of other potential markets. We note that any such value upside is not readily available to Alchemia and would only be available in partnership with Dr. Reddy's (no other potential suitor for rights in relation to the rest of the world has emerged).

The Proposed Sale constitutes a disposal of the main undertaking of the Company

Should the Proposed Sale proceed, the Company will dispose of its main undertaking. At that point, it will effectively become a listed shell company with substantial cash reserves. This may be inconsistent with the objectives of particular Shareholders.

Other matters

Taxation

Implementation of the Proposed Scheme may trigger tax consequences for Shareholders earlier than would have been the case otherwise. The taxation consequences of the Proposed Scheme for Shareholders will depend on the personal taxation and financial circumstances of each Shareholder. We recommend Shareholders consider consulting an independent adviser who will have regard to their individual circumstances.

Opinion

In our opinion, the Proposed Sale is fair and reasonable to Shareholders. An individual Shareholder's decision in relation to the Proposed Sale may be influenced by his or her particular circumstances. If in doubt the Shareholder should consult an independent adviser, who should have regard to their individual circumstances.

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

Yours faithfully

Stephen Reid
Authorised Representative 461011

Tapan Parekh
Authorised Representative 461009

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Glossary

Reference	Definition
α	Specific company risk premium
Allan Gray Australia	Allan Gray Australia and its related bodies corporate
Alchemia or the Company	Alchemia Limited
Alchemia Oncology	Alchemia Oncology Pty Limited
ANDA	Abbreviated new drug application
API	Active pharmaceutical ingredient
Apotex	Apotex, Inc
ASIC	Australian Securities and Investments Commission
Aspen	Aspen Group
ASX	Australian Securities Exchange
AUASB	Auditing and Assurance Standards Board
AUD	Australian dollars
β	Beta
CAPM	Capital Asset Pricing Model
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
DMF	Drug master file
Dr. Reddy's	Dr. Reddy's Laboratories Limited
draft Notice of Meeting	Copy of draft notice of meeting received by Deloitte Corporate Finance for review
DVT	Deep vein thrombosis
D/V	Proportion of enterprise funded by debt
EMRP	Equity market risk premium
E/V	Proportion of enterprise funded by equity
FDA	Food and Drug Administration
Financial Model	Financial model prepared by management setting out cash flow projections associated with sales of fondaparinux and associated profit share under various scenarios
Fonda IP	Alchemia's worldwide exclusive intellectual property rights to its generic fondaparinux drug
FY	Financial years
GSK	GlaxoSmithKline
HA-Irinotecan	HyACT-targeted Irinotecan
K_d	Cost of debt capital
K_e	Cost of equity capital
mCRC	Metastatic colorectal cancer
Mylan	Mylan NV
NDA	New Drug Application
Panther	Panther Biotechnology, Inc
PE	Pulmonary embolism
Profit Share Rights	Alchemia's rights to profit share from fondaparinux sales
the Proposed Sale	Alchemia's proposal to sell Fonda IP and its Profit Share Rights to Dr. Reddy's
PSI	PSI CRO AG
R_f	Risk free rate of return
R_m	Expected return on the market portfolio
SBBI	Stocks, Bonds, Bills and Inflation Yearbook
Shareholders	Alchemia's shareholders
t_c	Corporate tax rate
the Assets	Fonda IP and the Profit Share Rights
the Notice of Meeting	Notice of the meeting at which Shareholders will vote on whether to approve the Proposed Sale
USD	US dollars
WACC	Weighted average cost of capital

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Contents

1 Overview of the Proposed Sale	11
2 Profile of Alchemia	12
3 Valuation of the Assets	20
Appendix A: Context to the Report	28
Appendix B: Valuation methodologies	30
Appendix C: Discount rate	31
Appendix D: Comparable entities	37

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1 Overview of the Proposed Sale

1.1 Summary

On 25 September 2015, Alchemia announced that it had agreed to sell the Fonda IP and the associated Profit Share Rights, which constitute its main undertaking, to Dr. Reddy's for cash consideration of USD17.5 million. The Proposed Sale contemplates the sale of the company's worldwide intellectual property rights, including the right to manufacture, use, sell, distribute or commercialise fondaparinux sodium. The Proposed Sale is subject to shareholder approval in the annual general meeting to be held on 10 November 2015.

If the Proposed Sale is approved, Alchemia and Dr. Reddy's will execute an asset purchase agreement for transfer of the Assets. Under the terms of the Proposed Sale Alchemia shall not be entitled to any profit share from sales of fondaparinux, effective 1 July 2015.

The rationale underlying the Proposed Sale is to remove the uncertainty over future profits from fondaparinux, reduce the operational costs of the business and provide a return to the shareholders. A competitive process was run to sell the Assets and the Proposed Sale represented the highest offer and, in management's view, the lowest risk of not closing.

1.2 Key conditions of the Proposed Sale

The Proposed Sale is subject to various conditions, the most significant being approval from Alchemia Shareholders and regulatory approvals from the ASX.

1.3 Intentions if the Proposed Sale proceeds

If the Proposed Sale is approved and proceeds, the Company's activities will be limited to investigating the best option for the Company going forward, including possibly determining the best way of distributing reserves to Shareholders. The cash received from sale of the Assets, net of transaction costs, to Shareholders would imply a value of approximately AUD0.075 per Alchemia share. Should the Proposed Sale proceed, the Directors will review available structures that will allow for a return to shareholders. The Company will effectively be a listed shell with substantial cash reserves.

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2 Profile of Alchemia

2.1 Company overview

Alchemia, an Australian biopharmaceutical company, was established in 1995 to focus on the potential of carbohydrates for drug discovery and development. Alchemia listed on the ASX in 2003, by which time it was primarily focused on developing an efficient synthesis of fondaparinux (the generic version of Arixtra®, an anticoagulant drug), based on the Company's proprietary carbohydrate technology. Alchemia's portfolio later expanded to include the HyACT platform technology, which was aimed at transporting cancer drugs to tumours, primarily to increase the effectiveness of these drugs against tumours, but without increasing toxicity.

In 2007, Alchemia successfully developed the proprietary manufacturing process for fondaparinux, which it licenced to its marketing partner, Dr. Reddy's. Sales of the drug officially commenced in 2011 following expiry of the data exclusivity period for Arixtra®, which has been marketed since 2003.

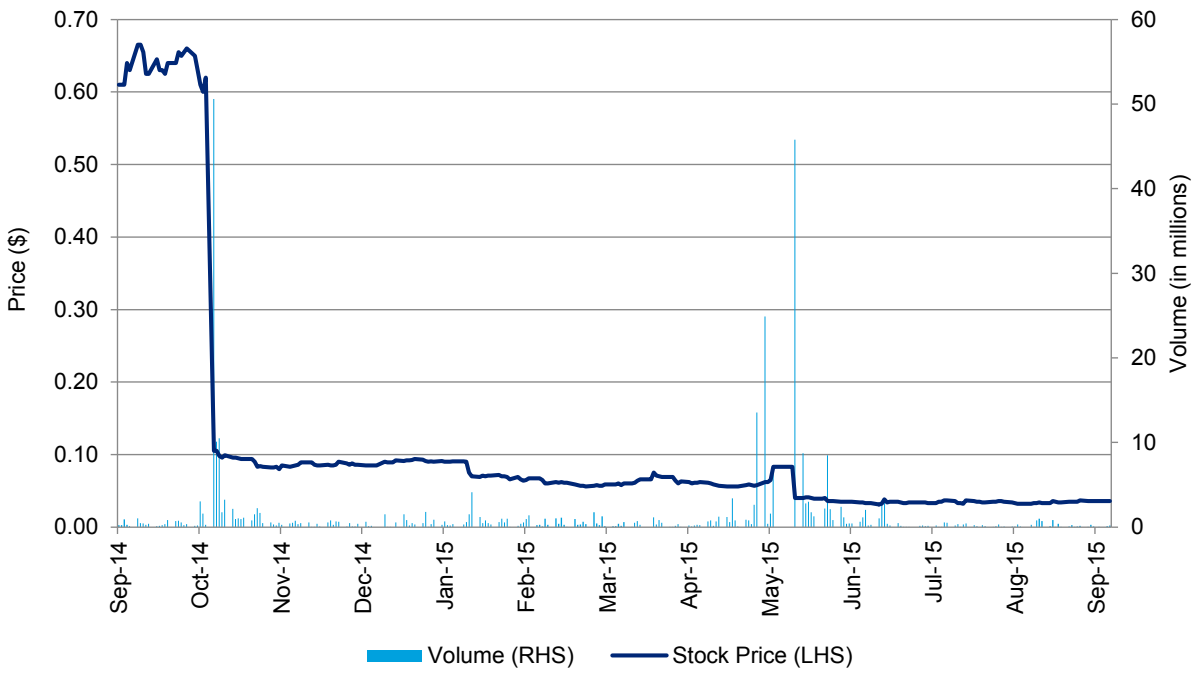
After licencing the generic fondaparinux to Dr. Reddy's, Alchemia's focus centred on the HyACT technology and, more specifically, on the product known as HyACT-targeted Irinotecan (referred to as HA-Irinotecan).

Irinotecan, marketed in major markets by Pfizer as Camptosar®, is an off-patent chemotherapy drug widely used in the treatment of metastatic colorectal cancer (mCRC). In 2007 Alchemia observed significant results from an Australian Phase II clinical trial of the product, with HA-Irinotecan seemingly enabling cancer patients to receive three times more therapy, purportedly resulting in better tumour responses.

However, on 27 October 2014, Alchemia announced disappointing results from Phase III trials of HA-Irinotecan, essentially concluding that the drug was not effective in meeting its primary endpoint, namely enhanced progression free survival rates for patients suffering from mCRC. By late August Alchemia had concluded all Phase III clinical monitoring activities and had closed 85% of its trial sites.

The disappointing Phase III results for HA-Irinotecan has had a significant impact on the Company's share price, as demonstrated in the figure below.

Figure 2



Note
1. *RHS = Right hand side, LHS = Left hand side*

The share price of the Company fell by AUD0.52 per share following the announcement of the Phase III results on 27 October 2014, representing a decrease of almost 83% from the previous day's closing price. Over 50 million shares were traded on that day, equivalent to 16% of Alchemia's total shares on issue. This compares

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with Alchemia's average weekly trading volumes in the twelve months prior to the announcement of approximately 1% of the total shares on issue during this period.

Eight months later, in May 2015, Alchemia requested its shares be placed in a trading halt (later followed by a voluntary suspension), while it negotiated the methodology adopted in computing its net profit share from Dr. Reddy's. Alchemia's results for the quarter ended 31 March 2015 were announced on 29 May 2015, according to which its profit share fell by approximately 7% compared to the previous quarter. Following this announcement, Alchemia's share price fell by approximately 50% compared to the closing price on the day its shares were suspended.

Following announcement of the failure of HA-Irinotecan, Alchemia announced it would undertake a strategic review in order to deliver the best outcomes for shareholders. This strategic review includes the following:

- target the payment of an unfranked dividend to shareholders during the second half of calendar year 2015, which the Company intended to base on revenues generated from the fondaparinux profit share arrangement, less the costs of running the core business functions of a listed company
- exploring opportunities to maximise value from its key asset, fondaparinux, including a possible sale of the technology. The Company has stated that it intends to return the net proceeds realised from the sale of the asset to shareholders
- execute a corporate transaction or partnership for HyACT for further clinical development. To this end, on 1 July 2015, Alchemia announced it had executed a binding term sheet for the conditional sale of its wholly owned subsidiary Alchemia Oncology Pty Limited (Alchemia Oncology) to Panther Biotechnology, Inc (Panther). Alchemia Oncology owns all of the Company's oncology assets, including HyACT. However, Panther subsequently defaulted on two material conditions precedent to the transaction proceeding and Alchemia is currently pursuing outstanding amounts owed to it by Panther as a result of this termination. As a result, at the time of issuing the Company's preliminary 2015 annual report in August, Directors of Alchemia concluded that a sale is not "highly probable"
- execute a corporate transaction for the Company's VAST technology by 30 June 2015[1]. On 3 July 2015, Alchemia announced it had executed a deed of assignment to assign its VAST drug discovery technology to VAST Biosciences Pty Limited (an entity unrelated to Alchemia) for consideration comprising an upfront payment of AUD100,000 and a tiered royalty stream on future revenues
- cut costs to the lowest level required to continue to meet Alchemia's corporate obligations and maximise its opportunities
- continue to manage the availability of the Company's tax losses in any transaction that Alchemia undertakes.

The Proposed Sale contemplates the sale of Alchemia's key asset and the only asset for which it generates earnings, fondaparinux, which we discuss in further detail in the following sections.

2.2 Overview of Fondaparinux

2.2.1 Background

Fondaparinux is an injectable anticoagulant drug used in the prevention and treatment of deep vein thrombosis (DVT) and pulmonary embolism (PE). The drug is typically administered as a preventative measure in association with major surgery, such as knee and hip replacements. Fondaparinux is a synthetic pentasaccharide that is difficult to manufacture on a commercial scale. Alchemia has successfully patented the chemical synthesis of AT-III binding heparin or heparinoid, pentasaccharides.

Arixtra®, the branded version of the drug, was first marketed by Sanofi, before being sold to GlaxoSmithKline (GSK) following the merger of Sanofi and Aventis in 2004[2]. GSK's earnings from Arixtra® were largely

[1] VAST comprises a proprietary chemistry platform related to small drug discovery

[2] GSK allowed Apotex, Inc (Apotex) to market an authorised generic version of Arixtra® in 2011, before selling the US rights for Arixtra® to the Aspen Group (Aspen). In September 2014, Aspen sold the US rights to Arixtra® to Mylan NV (Mylan). Mylan recently acquired the rights to the authorised generic from Apotex.

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protected until 2009, when the exclusivity period for the branded drug expired, allowing generic fondaparinux products to enter the market.

Alchemia licenced its proprietary manufacturing process for fondaparinux and granted exclusive rights to market fondaparinux in the US and Canada to Dr. Reddy's in 2007.

The key terms of the agreements between Alchemia and Dr. Reddy's are as follows:

- **Manufacturing agreement**: the agreement provides Dr. Reddy's the right to manufacture using Alchemia's proprietary manufacturing process and supply to all Alchemia approved marketers. The agreement expires in April 2017. The agreement provides Alchemia the option to extend in two year renewals, unless Dr. Reddy's chooses to terminate the agreement with sufficient notice
- **Collaboration, development and marketing agreement**: the agreement provides Dr. Reddy's the exclusive right to market the product in both the US and Canada and in return Alchemia receives a royalty of 50% of net profits (increasing to 60% subject to certain conditions). Several inputs to net profit are agreed on an annual basis including the active pharmaceutical ingredient (API) supply price and commercial expenses. The agreement automatically extends in in two year renewals from April 2017, unless either party chooses to terminate the agreement with sufficient notice. Alchemia also has the ability to terminate if Dr. Reddy's fails to meet certain market share or net profit requirements
- **Development and commercialisation agreement**: the agreement provides Dr. Reddy's the exclusive right to market the product in all territories outside the US and Canada and in return Alchemia receives an agreed share of net profits. The agreement expires in April 2027, however Alchemia may terminate the agreement in respect of a target country if Dr. Reddy's fails to meet certain timelines for product launch or first royalties.

There are a number of challenges for Alchemia associated with the agreements. In particular:

- the relatively near term expiry of the collaboration, development and marketing agreement as well as the manufacturing agreement (in 2017) represent a risk that Dr. Reddy's may choose not to extend the agreements. Alchemia is reliant on securing an extension which could involve re-negotiating the agreements, to potentially less favourable terms. We note, however, that so long as the agreements represent a profitable enterprise to both parties there is a low likelihood the agreements would not be extended or would be re-negotiated
- the patents covering the Fonda IP expire in 2023, beyond which Dr. Reddy's will be able to manufacture and sell the drug without any compensation to Alchemia. This gives Dr. Reddy's significant bargaining power, should it choose to renegotiate terms for the period beyond 2017 (for the North American rights). The short remaining patent life also means that the alternative for Alchemia to Dr. Reddy's would be to seek to negotiate with an alternative manufacturer for a six year term (2017 to 2023) with a substantial cost involved in the technology transfer
- Alchemia does not own a brand for the product. The product is marketed as Dr. Reddy's generic fondaparinux
- the Company's share of profits is determined after a provision for sales returns, which is currently subject of negotiation between the Company and Dr. Reddy's, with a potential increase in the level of the ongoing provision possible. In addition, a one-off uplift to the sales return provision of USD1.1 million has been applied by Dr. Reddy's, which it proposes to recoup over four quarters commencing 30 June 2015. One quarter of the uplift was deducted from Alchemia's profit share for the June 2015 quarter. Alchemia is currently disputing the methodology used by Dr. Reddy's to calculate this sales return provision. The outcome of this dispute remains uncertain at the date of this report.

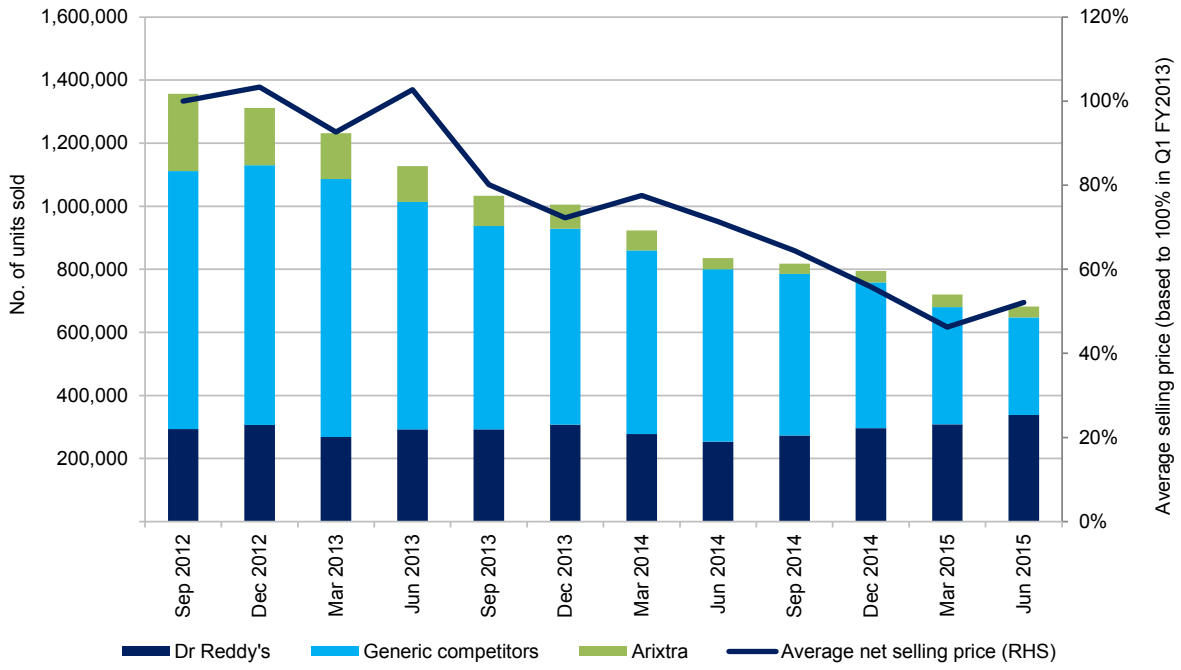
2.2.2 Market position in the US

Dr. Reddy's currently faces significant competition in the fondaparinux market as well as the wider anticoagulant industry with additional generic and novel drugs expected to impact market share going forward. As a generic drug, Dr. Reddy's intention for fondaparinux was to compete on price with the incumbent branded drug, Arixtra®. However, immediately after the introduction of Dr. Reddy's fondaparinux, Apotex released an authorised generic drug, which quickly became the market leader. Since then, Dr. Reddy's has increased its market share from 22% in the quarter ended September 2012 to 50% in June 2015, however this has occurred at the expense of profitability, with average net selling prices having halved over the three years to June 2015 (an equivalent compound annual rate of decline of 26%). We note that Arixtra® has never held a substantial share of the market, and held only 5% in the quarter ended June 2015. However, Mylan's recent acquisition of the

Apotex generic version of Arixtra® is expected to result in further pricing pressure, as Mylan is expected to take a more aggressive approach to pricing, compared with Apotex.

The following chart depicts a historical breakdown of the fondaparinux market and the movement in average net selling prices[3] achieved by Dr. Reddy's.

Figure 3



Source: Management, Annual Report

Since 2013 at least one abbreviated new drug application (ANDA)[4] and eight drug master files (DMFs)[5] have been filed with the United States Food and Drug Administration (FDA) for fondaparinux. In the event that these applications result in new generic entrants, more pressure will be placed on sales and margins in what is an already shrinking market.

There has been a significant decline in the overall fondaparinux market with volumes having halved over the past three years. Volumes decreased by 24% in FY2014 and 21% in FY2015, respectively. In revenue terms, the market has more than halved over the period, as pricing has become increasingly competitive.

This decline is the result of increased competition in both DVT and PE injectables as well as the wider anticoagulants industry. Enoxaparin is a cheaper injectable in competition with Fondaparinux sold under branded trade names including Lovenox, Xaparin and Clexane. In addition, generics treating DVT and PE are also sold by Sandoz, Amphastar and now Teva Pharmaceuticals.

The outlook for the wider injectables market is also uncertain following the release of new oral anticoagulant drugs such as Dabigatran, Rivaroxaban and Apixaban. Whilst the delivery method is preferred by patients, oral anticoagulants are currently more expensive than injectables. Nevertheless, these oral anticoagulant drugs represent a new source of competitive pressure for fondaparinux.

2.2.3 Potential other markets

Apart from the US, Canada and India in which Dr. Reddy's already operates, other potential markets for fondaparinux include Europe, China and South East Asia, in which Arixtra® already has a presence. Dr.

[3] Selling price net of rebates and discounts.

[4] An ANDA is an application for a generic drug approval for an existing approved drug and can be filed confidentially. This is only made public once approval is granted.

[5] A DMF is a submission to the FDA used to provide confidential information in relation to the manufacturing, processing, packaging or storing of a human drug. The information is used to support drug applications such as an ANDA or New Drug Application (NDA).

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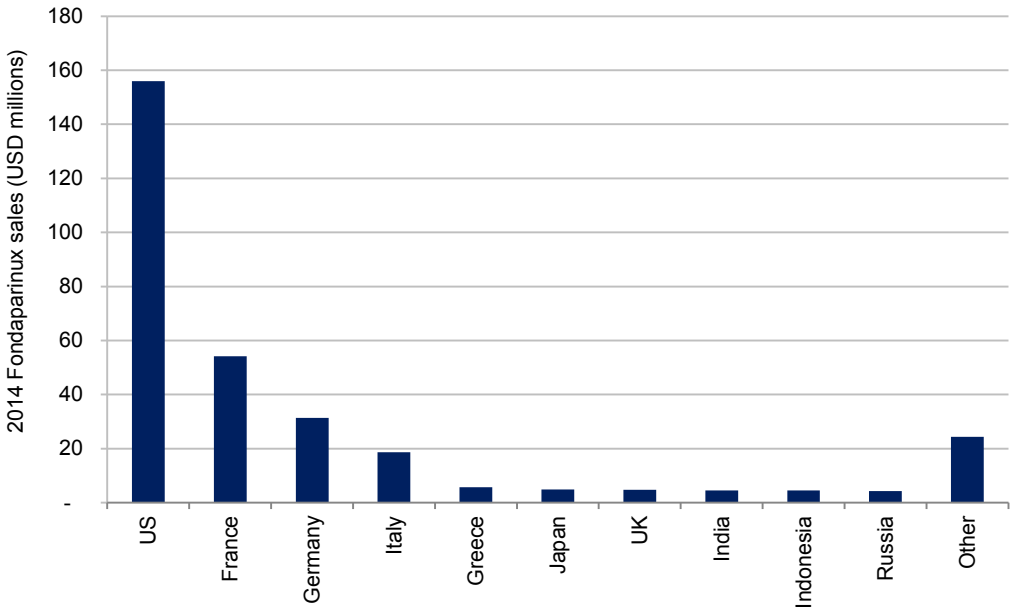
Reddy's has filed for regulatory approvals in Europe and China and is expected to file in South East Asia in Q1 FY2016.

The figure below depicts the fondaparinux market size in other countries, in comparison to the US.

Figure 4



Source: IMS

In 2014 France, Germany and Italy represented approximately 73% of international fondaparinux volumes but only 33% of international revenues. This is due to the reference pricing system used throughout Europe, which prices a pharmaceutical group (i.e. heparin) based on the least expensive option. As a result, local selling prices are unprofitable for Alchemia and Dr. Reddy's under the existing profit share agreement with Dr. Reddy's. In line with these commercially challenging conditions, no generic injectable anti-coagulants have been launched in the region, compared to several generic injectable anti-coagulants in the US.

Apart from Europe, other markets include Japan, UK, India, Indonesia, Russia and China, which collectively contributed approximately USD 29 million or 8% of the global market. Dr. Reddy's already sells fondaparinux in India, but is yet to return a profit. We understand that in the remaining markets, IMS data is based solely on Arixtra® sales. To compete in these markets, Dr. Reddy's generic fondaparinux would likely be sold at a discount to the price of the branded equivalent. Based on historical selling prices of Arixtra® in the remaining markets, it is unlikely that these countries would be profitable for Alchemia, with the potential exceptions of Japan, China and Indonesia.

The fondaparinux market in Japan has almost halved (by volume) since 2012, and the market in China has decreased by nearly 70% over the same period. Volumes in Indonesia have remained steady. As noted above, Dr. Reddy's does not currently have local approvals for Japan, China, or Indonesia. Dr. Reddy's has filed for approval in China, with an expected launch in FY2019; and expects to file for regulatory approvals in South East Asia in FY2016 for an expected launch in FY2018.

To the extent that these markets prove to be sufficiently large and profitable for Dr. Reddy's (or expand in the short to medium term), we note that an authorised generic could be quickly launched in those markets, as Arixtra® is already approved and the authorised generic would not be subject to the same approval process as Dr. Reddy's. Furthermore, potential other new manufacturers of generic fondaparinux may also enter those markets. This would limit the market share available to Dr. Reddy's, and put further pressure on prices.

Generic manufacturers like Dr. Reddy's may be willing to enter potentially unprofitable markets in order to have a full 'suite' of products to sell to hospitals and distributors. On this basis, it is possible that Dr. Reddy's would enter a market where fondaparinux is unprofitable in order to support other more profitable products in their portfolio. This, however, would not benefit Alchemia under the current profit share agreements.

The lack of profitable foreign markets, expected competition and remaining patent life, together with the existing profit share agreement with Dr. Reddy's, make it unlikely that other international markets will result in a material benefit for Alchemia.

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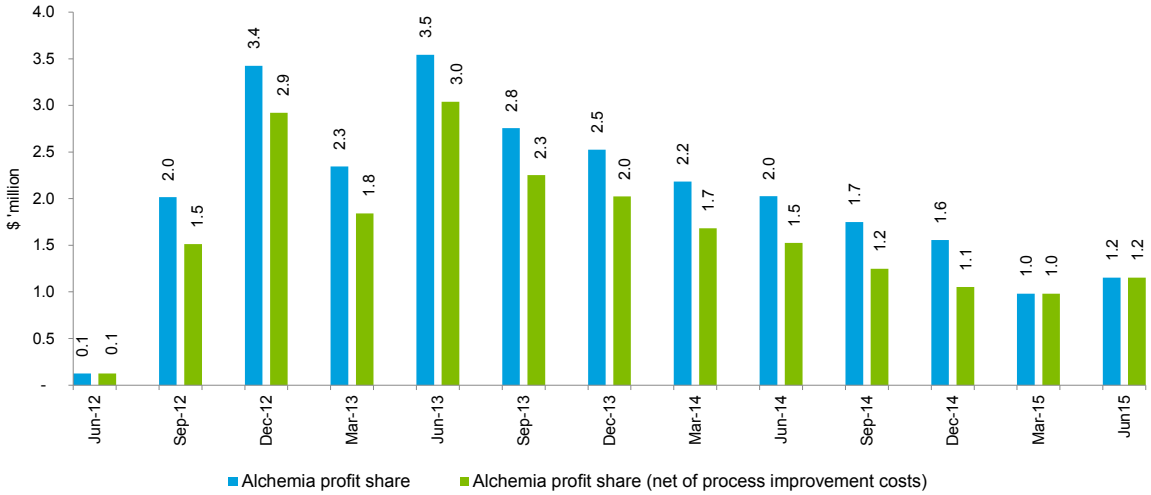
2.2.4 Financial performance

Alchemia's financial performance is underpinned by the net profit share it earns from licencing its fondaparinux technology to Dr. Reddy's. Alchemia's historical quarterly net profit share results since June 2012 are summarised in the figure below.

Figure 5



Source: Annual Reports
Note:
1. *Up until December 2014, Alchemia was contractually required to contribute to process improvement costs (USD5 million, in ten equal quarterly instalments over two and a half years to 31 December 2014).*

Alchemia's fondaparinux earnings have steadily decreased over the course of the last two years, driven by increasing novel oral drugs and new generic injectables entering the market. The June 2015 quarter profit share returned to Alchemia (and shown in Figure 5) is net of one quarter of the USD1.1 million additional provision for sales returns discussed above.

2.3 Capital structure

Alchemia currently has 324.7 million ordinary shares on issue.

The top ten shareholders hold a combined interest of 42% in the issued share capital of Alchemia. The following table summarises the top ten individual shareholdings of Alchemia.

Table 4

Name	No of shares held ('millions)	Proportion of shares on issue
Allan Gray Australia	43.1	13.3%
Sandon Capital	42.9	13.2%
Armada Trading Pty Limited	10.9	3.4%
Bendigo and Adelaide Bank Limited	7.0	2.2%
California Capital Equity, LLC	5.9	1.8%
Andrews, Peter Ronald	4.4	1.3%
AMP Capital Investors Limited	3.9	1.2%
Pinwillow Pty Limited	3.8	1.2%
Australian Ethical Investment Limited	2.4	0.8%
Top ten shareholdings	**124.2**	**38.3%**
Others	200.5	61.7%
Total shares outstanding	**324.7**	**100.0%**

Source: CapitalIQ

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In addition to ordinary shares, the company currently has approximately 9.7 million options on issue. The exercise price for the options ranges from AUD0.25 to AUD0.88, and the options vest at various dates between May 2012 and August 2017.

2.4 Financial performance

The audited income statements of Alchemia for the financial years (FY) ended 30 June 2014 and 2015 are summarised in the table below.

Table 5

	Audited actual FY2014 (AUD 000)	Audited actual FY2015 (AUD 000)
Continuing operations		
Interest revenue	396	164
Profit share income	8,135	5,583
Grant revenue and R&D tax incentive refunds	6,061	5,746
Other income	107	432
Total revenue	**14,699**	**11,925**
Research and development costs	(10,627)	(9,004)
Payroll and staff expenses	(4,488)	(3,830)
Administration and corporate expenses	(2,280)	(2,077)
Depreciation and amortisation	(1,475)	(787)
Onerous contracts expense	-	(550)
Rent and occupancy expense	(531)	(544)
Business development	(470)	(114)
Share based payment expense	(1,442)	(83)
Impairment charge	-	(12,764)
Loss from continuing operations before income tax	**(6,614)**	**(17,828)**
Income tax benefit	262	2,937
Loss for the year from continuing operations	**(6,352)**	**(14,891)**
Discontinued operations		
Loss for the year from discontinued operations	(572)	(925)
Loss for the year	**(6,924)**	**(15,816)**
Other comprehensive income	-	-
Total comprehensive loss for the year, net of tax, attributed to equity holders of the parent	**(6,924)**	**(15,816)**

Source: Preliminary final report for the year ended 30 June 2015

We note the following in respect of Alchemia's recent financial performance:

- revenues decreased by 19%, from AUD14.7 million in FY2014 to AUD11.9 million in FY2015, mainly due to a decrease in the fondaparinux profit share result from Dr. Reddy's
- grant revenue and R&D tax incentive refunds relate to government grants and incentives offered by the government for eligible research and development expenditure. Receipt of the R&D refund relating to FY2015 is contingent on approval by AusIndustry
- the increase in losses in FY2015 was driven by the AUD12.8 million impairment expense associated with the HyACT technology, triggered by the failure of the Phase III trial. This impairment was partly offset by reduced costs due to the cost cutting program undertaken by Alchemia, following the disappointing Phase III results
- discontinued operations refer to the VAST drug discovery technology, as a result of the assignment of the asset to VAST Biosciences Pty Limited in July 2015.

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2.5 Financial position

The audited balance sheets of Alchemia as at 30 June 2014 and 2015 are summarised in the table below.

Table 6

	Audited June 2014 (AUD 000)	Audited June 2015 (AUD 000)
Cash and cash equivalents	7,949	5,021
Short term deposits	3,117	117
Trade and other receivables	8,392	8,074
Prepayments	942	605
Total current assets	**20,400**	**13,817**
Property, plant and equipment	307	162
Intangible assets and goodwill	13,404	-
Deferred tax assets	20	653
Total non-current assets	**13,731**	**815**
Total assets	**34,131**	**14,632**
Trade and other payables	3,522	780
Current tax liability	135	62
Provisions	456	2,280
Deferred revenue	289	-
Total current liabilities	**4,402**	**3,122**
Provisions	374	-
Deferred tax liability	2,305	1
Total non-current liabilities	**2,679**	**1**
Total liabilities	**7,081**	**3,123**
Net assets	**27,050**	**11,509**

Source: Preliminary final report for the year ended 30 June 2015

We note the following in respect of the financial position of Alchemia:

- the majority of trade and other receivables comprise refunds receivable under the R&D tax incentive program and the fondaparinux profit share receivable from Dr. Reddy's
- intangible assets and goodwill were written off in FY2015 following the failure of the Phase III HyACT trial. This also resulted in associated deferred tax liabilities of AUD2.3 million being written off
- certain additional provisions have been raised in FY2015 due to the negative results of the Phase III trial. These provisions mainly relate to:
  - onerous lease contract: Alchemia has a non-cancellable operating lease on premises located in Brisbane. Following the divestment of the VAST technology, the Company intends to vacate these premises
  - research and development contract: Alchemia contracted PSI CRO AG (PSI), a clinical trial management company, to manage the Phase III HyACT clinical trials. Alchemia has agreed to pay a fixed fee to PSI upon achievement of certain milestones, however the contract can be terminated early by paying all the costs incurred up to the date of termination. A provision has been made for all outstanding costs
  - restructuring provisions: these provisions relate to the restructuring measures undertaken by the Company following the Phase III failure.

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3 Valuation of the Assets

3.1 Definition of value

For the purpose of our opinion fair market value is defined as the amount at which the Assets would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation has not been premised on the existence of a special purchaser.

3.2 Valuation approach

Deloitte Corporate Finance has assessed the fair market value of the Assets using the discounted cash flow method. It is common market practice to value finite life assets (such as the Assets) using the discounted cash flow method. In particular, this method allows for the potential decline in sales of fondaparinux to be explicitly captured.

Market based methods, such as the capitalisation of earnings method, rely on the existence of a number of comparable companies or assets against which to benchmark valuation assumptions. We are not aware of any such comparable assets operating in the public domain or of any transactions in directly comparable assets against which to benchmark, given the unique nature of the Fonda IP and the specific terms associated with the Profit Share Rights. Furthermore, we note that the Assets are not liquid assets, have a finite life and the associated stream of profits is not in a steady state. Cost-based methods may overestimate the value of the Assets given the current condition of the generics market for fondaparinux and the number of products competing for market share.

We have considered the value of the Assets collectively as the terms of the Proposed Sale contemplate the Fonda IP and Profit Share Rights collectively. Further, we consider their value is interdependent as the Profit Share Rights represent the current avenue by which Alchemia has monetised the Fonda IP.

We have selected USD as the functional currency to value the Assets. This is consistent with the currency in which the profits from fondaparinux sales are generated (with the US being the only market that generates profits that accrue to Alchemia), and with the manner in which Alchemia and Dr. Reddy's review and report on the performance of fondaparinux.

We consider there is no direct approach to cross-check the value for the Assets derived using the discounted cash flow method. Nevertheless, we have cross checked the values derived under the discounted cash flow method against recent trading in Alchemia's shares prior to the announcement of the Proposed Sale on 25 September 2015.

Refer to Appendix B for a detailed discussion on the various valuation methodologies which can be adopted in valuing corporate entities and businesses, but which can be adapted to value assets, as appropriate.

3.3 Future cash flows

3.3.1 The Financial Model

Management have prepared a financial model (Financial Model) setting out cash flow projections associated with sales of fondaparinux and associated profit share under various scenarios. The cash flow projections comprise nominal after tax cash flows up to and including the year ending 30 June 2023, coinciding with expiry of the patents protecting the Fonda IP. The projection period includes the projected profit share for the quarter ending 30 September 2015. Whilst this quarter has completed, should the Proposed Sale proceed, this quarter's profit share would not be paid to Alchemia. Accordingly, it is appropriate to include this period in our consideration of the value of the Assets. In other words, the consideration under the Proposed Sale includes compensation for this quarter's profit share, and our assessment of the value of the Assets is on a basis consistent with this.

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We have performed an analysis of Alchemia's projections, including:

- analysing the Financial Model, including limited procedures regarding the mathematical accuracy of the model (but have performed neither a review nor an audit of the model)
- reviewing the basis of the underlying assumptions such as a comparison against historical performance, and considering IMS data
- holding discussions with Alchemia's management concerning the preparation of the projections, and their views regarding the assumptions on which they are based.

We have adjusted assumptions adopted by Alchemia in the preparation of the projections, where we considered it appropriate, primarily in relation to projected volumes and average net selling prices.

The key assumptions underpinning the projections consist of the following:

- assumed extension of the manufacturing and collaboration, development and marketing agreements with Dr. Reddy's under the rolling two year extension option mechanism until expiry of the patents over the Fonda IP at the original terms. The agreements with Dr. Reddy's represent arm's length arrangements, and allow for the costs of manufacture payable to Dr. Reddy's to be reviewed by mutual agreement every year. Furthermore, the costs of a technology transfer to an alternative manufacturer are likely to be prohibitive given the remaining patent life and projected profits over that period. We have allowed for the risk associated with dependence of the Assets on the key agreements in our assessed discount rate (refer to Section 3.3.4) and have considered the value impact on the outcome should the agreements not be extended within our sensitivity analysis (refer to Section 3.5)
- profit share is projected to be generated from the US only, with no profit share projected to be generated from other markets around the world. This is consistent with historical results and based on our expectations of a lack of profitable opportunities in other markets having regard to the potential market size as well as increasing competition from the authorised generic, potential other new manufacturers of generic fondaparinux, other injectable anticoagulants and oral anticoagulants. Refer to Section 2.2.3 for our discussion on the market position of Dr. Reddy's fondaparinux and potential profits from other markets. Whilst we consider it unlikely non-US markets will result in a material benefit for Alchemia, we have considered an indicative scenario whereby potential non-US markets are assumed to be profitable as part of our sensitivity analysis at 3.5.3
- sales volumes projections: we have considered two alternate projected volume profiles of the overall market through our scenario analysis, described at Section 3.3.2. Considering we have projected alternate scenarios regarding total market volume and net selling price (refer below), Dr. Reddy's market share is projected to remain constant at 50%, which is the market share achieved in the June 2015 quarter
- the average net selling price: we have considered two alternative price paths, through our scenario analysis, described at Section 3.3.2
- costs of sales, which primarily comprises the cost of the active pharmaceutical ingredient (API) supplied by Dr. Reddy's, projected to reset on 1 October 2015 in line with the current agreement and reduce slightly in subsequent years based on assumed renegotiated prices. Other costs include conversion costs, freight and distribution and commercial expenses payable to Dr. Reddy's, which are projected to reduce slightly. We considered an alternative scenario without cost reduction, however the value outcome was approximately equal to that under Scenario C described below. Accordingly we have not presented that scenario.

We have not incorporated any corporate costs or incremental additional overhead costs in our valuation of the Assets on the basis that the hypothetical pool of purchasers for the Assets would be able to absorb any such administrative effort as part of the their existing management structures, and would not incur any incremental overhead costs.

3.3.2 Scenario analysis

We have considered projected cash flows for the Assets under a number of scenarios, incorporating various assumptions for the projected sales volume and average net selling price. The scenarios are as follows.

- Scenario A:
  - market size: a 20% rate of decline in the overall fondaparinux market in the US is assumed in FY2016, having regard to the historical decrease in volumes. This is followed by a decline at a decreasing rate: 10% in FY2017 and FY2018, 5% in FY2019 and FY2020, followed by 2.5% per annum decline thereafter

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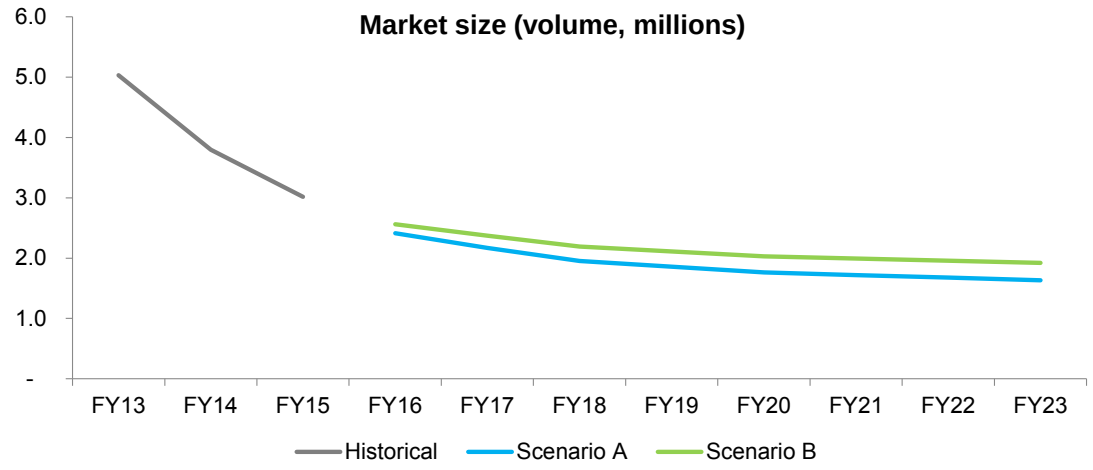
- average net selling price: assumed to decrease by 10% in FY2016 and 5% in FY2017, and remain steady thereafter

- Scenario B:
  - market size: as an alternative to Scenario A, we have assumed the volume decline in the overall fondaparinux market occurs at a slower rate: 15% decrease in FY2016, 7.5% in FY2017 and FY2018, 3.75% in FY2019 and FY2020, followed by 1.88% per annum decline thereafter
  - average net selling price: consistent with those assumed in Scenario A
- Scenario C:
  - market size: consistent with Scenario B
  - average net selling price: in order to achieve the higher sales volume relative to Scenario A, the price decline is consistent with Scenario B for the first two years, followed by a third year of decrease at 5%, before prices stabilise.

We note that all scenarios assume the decay in the market is arrested, with sales plateauing and prices stabilising, and accordingly there is significant downside risk to the cash flow projections in all of these scenarios should the decay in the market not be arrested.

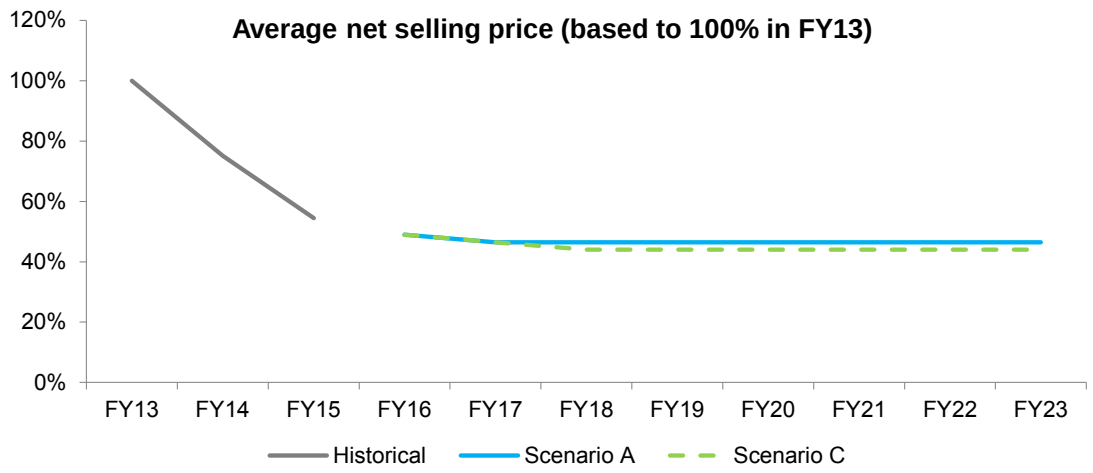
The figures below set out the projected market size (volume), average net selling price, net sales and profit share profile under various scenarios, compared to the historical results.

Figure 6



Source: Deloitte Corporate Finance analysis

Figure 7



Source: Deloitte Corporate Finance analysis

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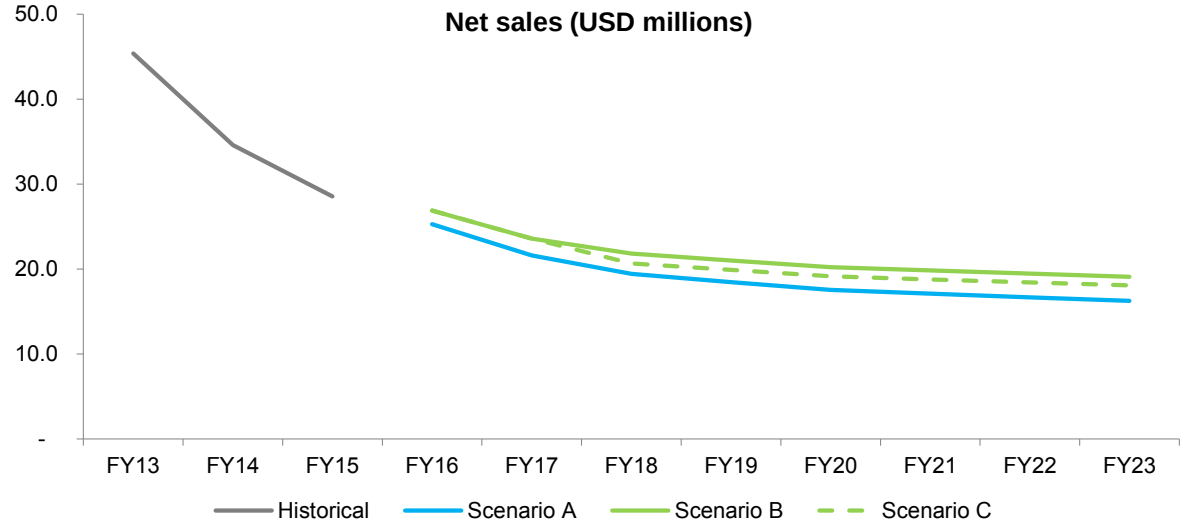
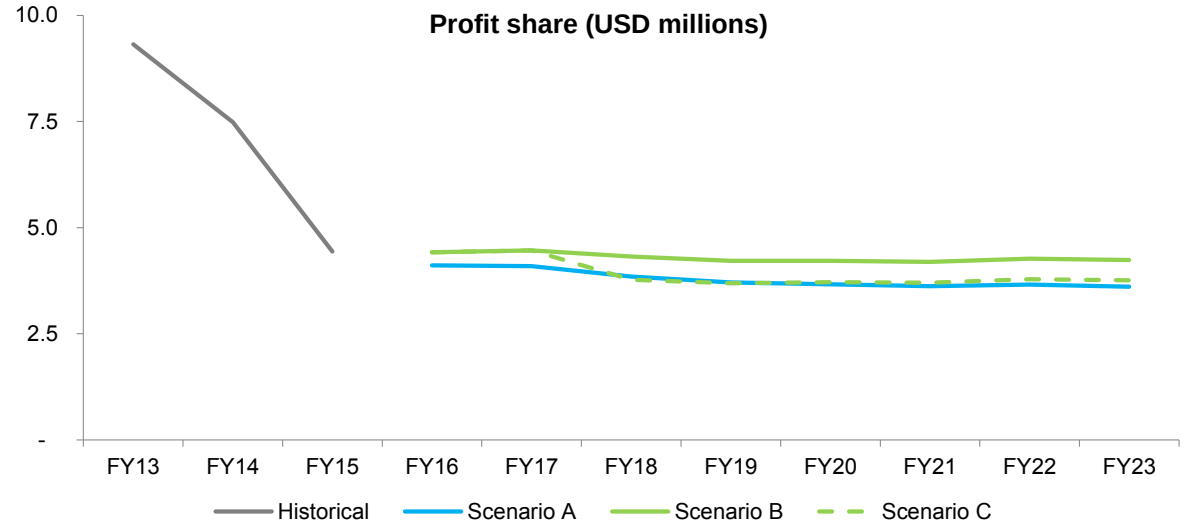
Figure 8



Source: Deloitte Corporate Finance analysis

Figure 9



Source: Deloitte Corporate Finance analysis

3.3.3 Tax

We have adopted an effective tax rate of 20% having regard to the tax rate that may be realised by a potential acquirer of the Assets. This tax rate is consistent with the implied tax rates of broadly comparable companies considered in our benchmarking analysis, which most recently had average and median tax rates of 25% and 21%, respectively (refer to Appendix D).

We consider the hypothetical pool of acquirers of the Assets would structure an acquisition in the most tax effective manner and likely hold the Fonda IP in one or more of the countries that provide for concessional tax treatment on profits generated from exploitation of intellectual property (such as Belgium, France, Cyprus, Malta, Ireland, the UK, the Netherlands etc.). The applicable tax rates on such income in international jurisdictions that provide for such concessional treatment range from 0% to circa 20%.

These concessional rates of tax, along with the observed tax rates of broadly comparable companies, support our selected effective tax rate assumption.

3.3.4 Discount rate

The discount rate used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected a nominal after tax discount rate in the range of 11.0% to 13.0% to discount the future cash flows of the Assets to their present value.

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In selecting this range we considered the following:

- the advanced lifecycle stage of fondaparinux generally
- the dependence of the Assets on the key agreements
- the required rates of return on listed companies with generic pharmaceutical operations
- the specific business and financing risks of the Assets
- Alchemia's current level of financial gearing.

A detailed consideration of these matters is provided in Appendix C.

3.4 Valuation outcomes

The assessed value of the Assets based on the discounted cash flow method under various scenarios is summarised in the following table.

Table 7

Scenario		Low	High
A	USD million	15.7	16.6
B	USD million	17.6	18.7
C	USD million	16.2	17.2

Source: Deloitte Corporate Finance analysis

The value outcome under Scenario A overlaps with that under Scenario C. This shows that the impact of the additional price reduction assumed in Scenario C to be made in order to achieve the projected sales volumes in Scenario B is, in value terms, almost equal to achieving the lower projected volumes under Scenario A.

3.5 Sensitivity analysis

3.5.1 Discount rate

The assessed value is moderately sensitive to the selected discount rate due to the finite patent life and declining cash flow profile. The table below sets out the range of value outcomes under a range of discount rates under each scenario.

Table 8

	Discount rate						
	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%
Scenario A	17.1	16.6	16.1	15.7	15.2	14.8	14.4
Scenario B	19.3	18.7	18.1	17.6	17.1	16.6	16.2
Scenario C	17.8	17.2	16.7	16.2	15.8	15.4	15.0

Source: Deloitte Corporate Finance analysis
Note:
1. Shaded area represents our preferred discount rate range

3.5.2 Term of agreements

As noted above, the value of the Assets incorporates cash flows projected to the end of FY2023. There is, however, a risk that Dr. Reddy's does not extend the key agreements. As the extension mechanism is based on two year extensions, the possible range of outcomes is that there is no extension beyond FY2017, FY2019 or FY2021. This would result in a lower value for the Assets, as they would only generate cash flows to Alchemia for two, four, or six years, respectively (as opposed to eight years of cash flows considered in the base case scenario analysis). The table below sets out the value outcomes under each scenario in these circumstances.

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Table 9

Scenario		2 years		4 years		6 years	
		Low	High	Low	High	Low	High
A	USD million	5.8	5.9	10.0	10.3	13.2	13.8
B	USD million	6.3	6.4	11.0	11.4	14.7	15.4
C	USD million	6.3	6.4	10.4	10.8	13.7	14.3

Source: Deloitte Corporate Finance analysis
Notes:
1. Base case values of each scenario depicted in Figure 1 reflect 8 years of projected cash flows
2. High and low values correspond to discount rates of 11.0% and 13.0% respectively

We note that so long as the agreements represent a profitable enterprise to Dr. Reddy's there is a low likelihood the agreements would not be extended.

This sensitivity analysis ignores any probability-weighted cash flows beyond the specified term and the potential value upside from the Company finding an alternate manufacturing and distribution partner. This is on the basis that the short remaining patent life and significant technology transfer cost is likely to deter a potential alternative partner.

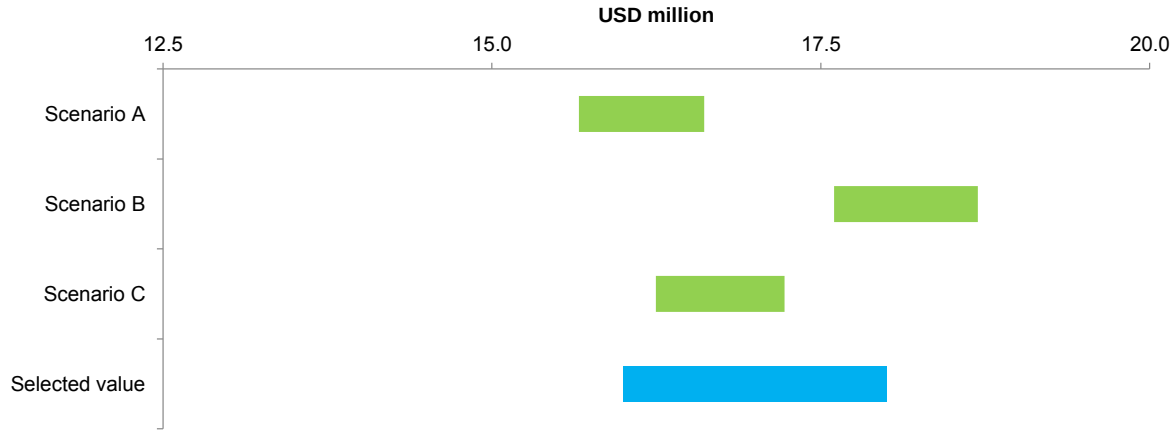
3.5.3 Rest of world

We have not included any profit share from non-US markets within our projected cash flows in the scenario analysis above, for reasons outlined previously. However, if we were to assume non-US markets for Alchemia were 10% of the historical US market size, the markets were immediately profitable at the same rate as in the US, and that Dr. Reddy's were to enter those markets in FY2017 (having regard to the need for approvals and market entry), with sales ramping up over a three year period, and this scenario had the same risk profile (and discount rate) as for the US sales, the value of the Assets would increase by approximately USD0.9 million. At present, not knowing which specific markets or what level of profitability would be achieved, this scenario is very optimistic. We consider this scenario unlikely.

3.6 Conclusion on value

Having regard to the scenario analysis and the above sensitivity analysis, we consider the fair market value of the Assets to be in the range of **USD16.0 million to USD18.0 million**, depicted in the figure below.

Figure 10



Source: Deloitte Corporate Finance analysis

Our selected value range covers the range under Scenario C and spans Scenarios A and B, acknowledging that the decline in volumes could be between our assumed 15% and 20%.

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3.7 Analysis of recent share trading

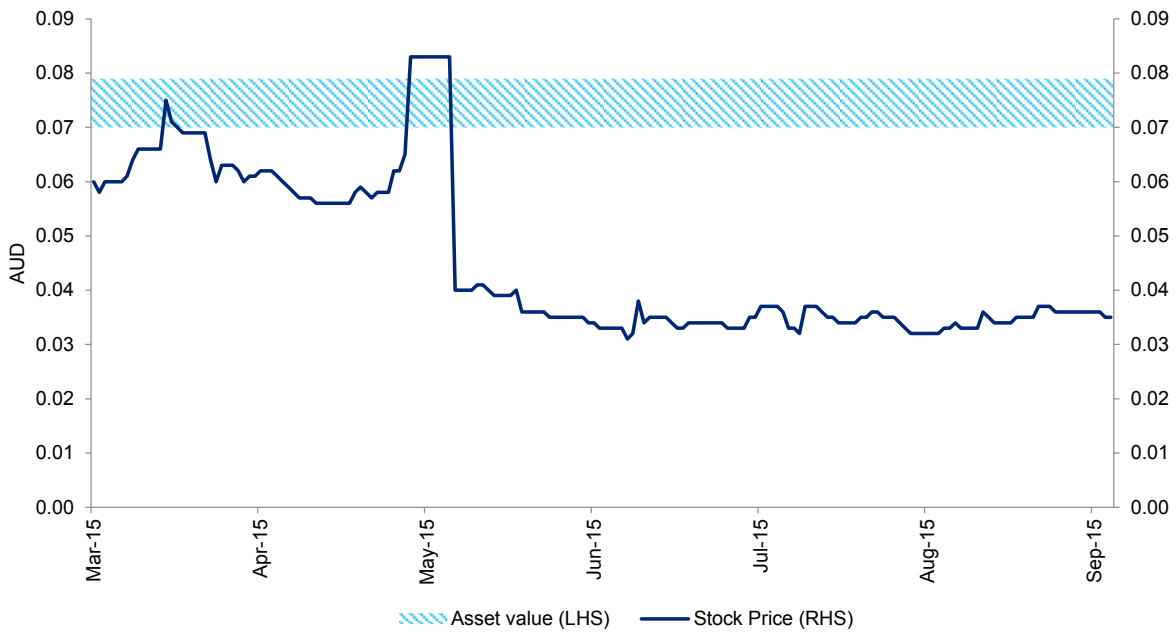
In our opinion, there is no direct approach to cross-check the value that we have estimated for the Assets using the discounted cash flow method.

In the absence of an alternative approach to cross-check our valuation under our primary methodology, we have compared the value ascribed to the Assets on a per share basis with trading in Alchemia's shares immediately prior to the announcement of the Proposed Sale, on the assumption that the market attributes negligible value to Alchemia's other non-cash assets.

The market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's shares.

The following figure shows Alchemia's share price over the six months prior to the announcement of the Proposed Sale on 25 September 2015 compared to our assessed value of the Assets. Our selected range of value for the Assets, converted at an AUD:USD exchange rate of 0.70, equates to a value per share in the range of AUD0.070 to AUD0.079.

Figure 11



Source: Capital IQ; Deloitte Corporate Finance analysis

In the five days leading up to the announcement of the Proposed Sale, Alchemia's shares were traded at prices in the range of AUD0.035 to AUD0.036 per share, with 0.16% of Alchemia's total outstanding shares traded over this period.

We note that the volume of trading in Alchemia's shares suggests the shares are illiquid, which limits the relevance of the share price as a point of reference for the value of the underlying assets.

Nevertheless, we note our valuation of the Assets is 101% to 120% higher than the value of the traded price of an Alchemia share (noting that the share price reflects the value of a minority interest parcel in the Company). Adjusting for the net tangible asset backing (approximately AUD0.033 per share, our valuation of the Assets would imply a premium of 195% to 212% compared to the traded price (on a minority basis).

Part of the difference between the value of the Assets and the value of Alchemia as a whole could reflect the difference between a controlling interest in the Assets and the minority interest effectively held by the Shareholders therein, along with the additional management costs required to maintain the Company as a listed entity and discharge its remaining obligations to shareholders beyond that required in relation to managing the Assets. As set out at Section 3.3.1, we have not incorporated any corporate costs or incremental additional overhead costs in our valuation of the Assets. By contrast, Alchemia, as a listed entity, incurred circa AUD7 million in administration and corporate costs in FY2015 (ignoring the Company's cost reductions in recent months).

Subsequent to the announcement of the Proposed Sale, Alchemia's shares have traded at a price in the range of AUD0.075 to AUD0.081, broadly consistent with the expected value per share implied by the consideration, if the Proposed Sale proceeds.

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Appendix A: Context to the Report

Individual circumstances

We have evaluated the Proposed Sale for Shareholders as a whole and have not considered the effect of the Proposed Sale on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Sale from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Sale is fair and reasonable. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

The report has been prepared at the request of the Directors of Alchemia and is to be included in the Notice of Meeting to be given to Shareholders for approval of the Proposed Sale in accordance with Section 640. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Notice of Meeting in their assessment of the Proposed Sale outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Shareholders and Alchemia, in respect of this report, including any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Sale. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Proposed Sale is fair and reasonable in relation to Chapter 11 of the Listing Rules and ASIC Regulatory Guide 111 and ASIC Regulatory Guide 112.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by Alchemia and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Alchemia management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by Alchemia and its officers, employees, agents or advisors, Alchemia has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Alchemia may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Alchemia and its officers, employees, agents or advisors or the failure by Alchemia and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Sale.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance's consideration of this information consisted of enquiries of Alchemia personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board (AUASB) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for Alchemia included in this report has been prepared on a reasonable basis in accordance with ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information of Alchemia referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

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Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Stephen Reid, M App. Fin. Inv., B.Ec, F Fin, CA and Tapan Parekh, B.Bus, M.Com, CA, F.Fin. Each have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney, NSW, 2000 acknowledges that:

- Alchemia proposes to issue an Explanatory Statement to the Shareholders that will accompany the Notice of Meeting in respect of the Proposed Sale
- the Notice of Meeting will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Notice of Meeting (draft Notice of Meeting) for review
- it is named in the Notice of Meeting as the 'independent expert' and the Notice of Meeting includes its independent expert's report as an attachment to the Notice of Meeting.

On the basis that the Notice of Meeting is consistent in all material respects with the draft Notice of Meeting received, Deloitte Corporate Finance Pty Limited consents to it being named in the Notice of Meeting in the form and context in which it is so named, to the inclusion of its independent expert's report as an attachment to the Notice of Meeting and to all references to its independent expert's report in the form and context in which they are included, whether the Notice of Meeting is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Notice of Meeting and takes no responsibility for any part of the Notice of Meeting, other than any references to its name and the independent expert's report as included as an attachment to the Notice of Meeting.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- Alchemia company announcements
- binding term sheet between Alchemia and Dr Reddy's
- collaboration, development and marketing agreements, and manufacturing agreement with Dr Reddy's
- annual report for Alchemia for the year ending 30 June 2014
- annual reports for comparable companies
- company websites for Alchemia, Dr Reddy's and comparable companies
- publicly available information on comparable companies and market transactions published by ASIC, Thompson research, Capital IQ, and Mergermarket
- IBIS company and industry reports
- other publicly available information, media releases and brokers reports on comparable companies and the generic pharmaceuticals industry.

In addition, we have had discussions and correspondence with certain directors and executives, including Jenni Pilcher, CFO; and Dr Tracie Ramsdale, Director in relation to the above information and to current operations and prospects.

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Appendix B: Valuation methodologies

To estimate the fair market value of the Assets we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which provides guidance in respect of the content of independent expert's reports. These are discussed below.

Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its securities or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent security trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent security trading history provides evidence of the fair market value of the securities in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

Asset based methods

Asset based methods estimate the market value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to securityholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies

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Appendix C: Discount rate

This appendix sets out our consideration of the discount rate denominated in USD, adopted to value the Assets.

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor for the asset or business being valued. Selecting an appropriate discount rate is a matter of judgement having regard to relevant available market pricing data and the risks and circumstances specific to the asset or business being valued.

Whilst the discount rate is in practice normally estimated based on a fundamental ground up analysis using one of the available models for estimating the cost of capital (such as the Capital Asset Pricing Model (CAPM)), market participants often use less precise methods for determining the cost of capital such as hurdle rates or target internal rates of return and often do not distinguish between investment type or region or vary over economic cycles.

Since our definition of fair market value is premised on the estimated value that a knowledgeable willing buyer would attribute to the asset or business, our selection of an appropriate discount rate needs to consider that buyers incorporate other alternatives to the typical CAPM approach in estimating the cost of capital.

For ungeared cash flows, discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the weighted average cost of capital (WACC).

The WACC can be derived using the following formula:

$$WACC = \left(\frac{E}{V} * K_e \right) + \left(\frac{D}{V} * K_d (1 - t_c) \right)$$

The components of the formula are:

K_e = cost of equity capital

K_d = cost of debt

t_c = corporate tax rate

E/V = proportion of enterprise funded by equity

D/V = proportion of enterprise funded by debt

The adjustment of K_d by (1- t_c) reflects the tax deductibility of interest payments on debt funding. The effective tax rate has been assumed to be 20% (refer to Section 3.3.3).

Cost of equity capital (K_e)

The cost of equity, K_e, is the rate of return that investors require to make an equity investment in a firm.

We have used the CAPM to estimate the K_e for the Assets CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

The cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta(R_m - R_f) + a$$

The components of the formula are:

K_e = required return on equity

R_f = the risk free rate of return

R_m = the expected return on the market portfolio

β = beta, the systematic risk of a stock

α = specific company risk premium

Each of the components in the above equation is discussed below.

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Risk free rate (R_f)

The risk free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk free rate is the long-term Government bond rate.

In order to estimate the risk free rate, we have obtained the five-day average yield on a 20-year US Government bond as at 21 September 2015.

Equity market risk premium (EMRP)

The EMRP (R_m – R_f) represents the risk associated with holding a market portfolio of investments, that is, the excess return a shareholder can expect to receive for the uncertainty of investing in equities as opposed to investing in a risk free alternative. The size of the EMRP is dictated by the risk aversion of investors – the lower (higher) an investor's risk aversion, the smaller (larger) the equity risk premium.

The EMRP is not readily observable in the market and therefore represents an estimate based on available data. There are generally two main approaches used to estimate the EMRP, the historical approach and the prospective approach, neither of which is theoretically more correct or without limitations. The former approach relies on historical share market returns relative to the returns on a risk free security; the latter is a forward looking approach which derives an estimated EMRP based on current share market values and assumptions regarding future dividends and growth.

In evaluating the EMRP, we have considered both the historically observed and prospective estimates of EMRP.

The historical approach is applied by comparing the historical returns on equities against the returns on risk free assets such as Government bonds, or in some cases, Treasury bills. The historical EMRP has the benefit of being capable of estimation from reliable data; however, it is possible that historical returns achieved on stocks were different from those that were expected by investors when making investment decisions in the past and thus the use of historical market returns to estimate the EMRP would be inappropriate.

It is also likely that the EMRP is not constant over time as investors' perceptions of the relative riskiness of investing in equities change. Investor perceptions will be influenced by several factors such as current economic conditions, inflation, interest rates and market trends. The historical risk premium assumes the EMRP is unaffected by any variation in these factors in the short to medium term.

Historical estimates are sensitive to the following:

- the time period chosen for measuring the average
- the use of arithmetic or geometric averaging for historical data
- selection of an appropriate benchmark risk free rate
- exclusion or inclusion of extreme observations.

The EMRP is highly sensitive to the different choices associated with the measurement period, risk free rate and averaging approach used and as a result estimates of the EMRP can vary substantially.

Data provided by the Morningstar 'Stocks, Bonds, Bills and Inflation Yearbook' (SBBI) for 2013 was considered in estimating the EMRP. The SBBI calculates the market equity risk premium by reducing large-company stock returns by the risk-free rate of return over the period from 1926 to 2012. To match the EMRP with the risk free rate included in the CAPM, we have considered the premium calculated over the return on the long-term US Treasury strips. Further adjustments were made to the SBBI equity risk premium in order to account for the inflation in the market price to earnings ratio as well as recent declines in the risk-free rate.

In addition to the data provided by the SBBI, consideration was also given to the equity risk premium implied by the dividend discount model for a broad market index such as the S&P 500.

Based on each of these sources of data, we consider a US EMRP of 6.25% can be supported by reference to published market data.

Beta estimate (β)

Description

The beta coefficient measures the systematic risk or non-diversifiable risk of a company in comparison to the market as a whole. Systematic risk, as separate from specific risk as discussed below, measures the extent to

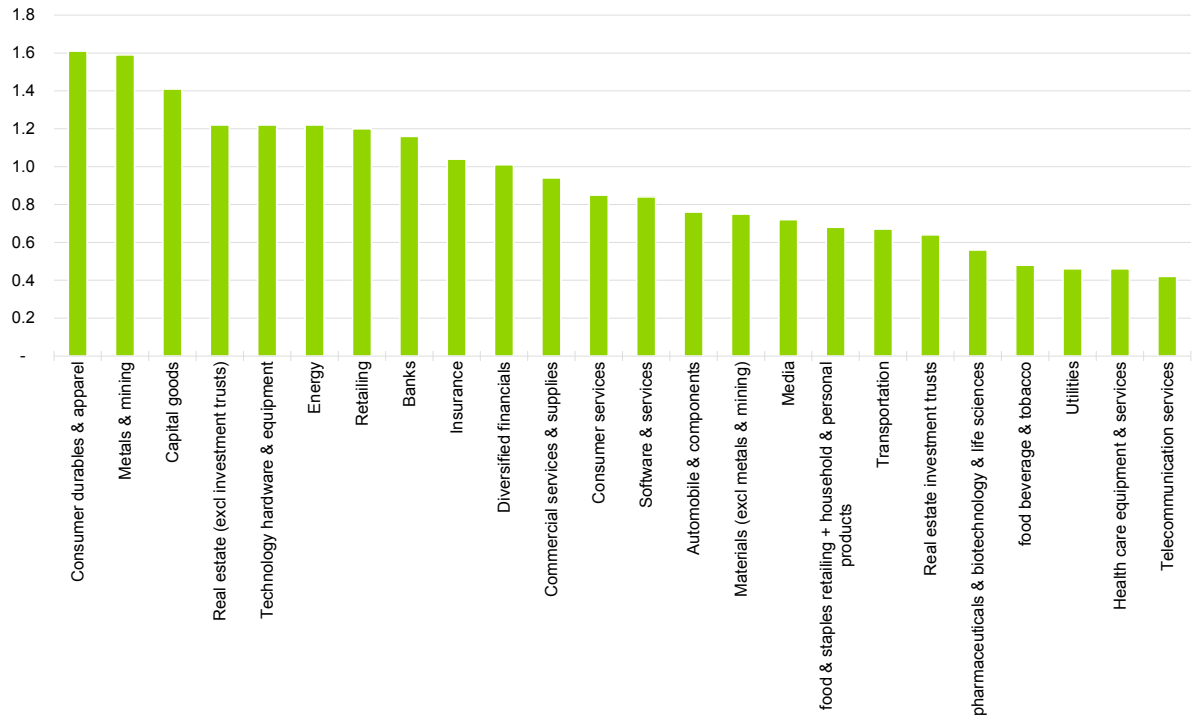
which the return on the business or investment is correlated to market returns. A beta of 1.0 indicates that an equity investor can expect to earn the market return (i.e. the risk free rate plus the EMRP) from this investment (assuming no specific risks). A beta of greater than one indicates greater market related risk than average (and therefore higher required returns), while a beta of less than one indicates less risk than average (and therefore lower required returns).

Betas will primarily be affected by three factors which include:

- the degree of operating leverage employed by the firm in that companies with a relatively high fixed cost base will be more exposed to economic cycles and therefore have higher systematic risk compared to those with a more variable cost base
- the degree of financial leverage employed by a firm in that as additional debt is employed by a firm, equity investors will demand a higher return to compensate for the increased systematic risk associated with higher levels of debt
- correlation of revenues and cash flows to economic cycles, in that companies that are more exposed to economic cycles (such as retailers), will generally have higher levels of systematic risk (i.e. higher betas) relative to companies that are less exposed to economic cycles (such as regulated utilities).

The betas of various Australian industries listed on the ASX are reproduced below and provide an example of the relative industry betas for a developed market.

Figure 12: Betas for various industries (as at 31 March 2015)



Source: Securities Industry Research Centre of Asia-Pacific Limited

The differences are related to the business risks associated with the industry. For example, the above diagram indicates transportation companies are more correlated to overall market returns with a beta close to 1.0 whereas telecommunications and other infrastructure companies (in particularly those that are regulated) typically have betas lower than 1.0.

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The geared or equity beta can be estimated by regressing the returns of the business or investment against the returns of an index representing the market portfolio, over a reasonable time period. However, there are a number of issues that arise in measuring historical betas that can result in differences, sometimes significant, in the betas observed depending on the time period utilised, the benchmark index and the source of the beta estimate. For unlisted companies it is often preferable to have regard to sector averages or a pool of comparable companies rather than any single company's beta estimate due to the above measurement difficulties.

Market evidence

In estimating an appropriate beta for the Assets we have considered the betas of listed companies with assets that are broadly comparable to the Assets, this including companies that operate in the generic pharmaceuticals industry. These betas, which are presented below, have been calculated based on weekly and monthly returns, over two and four year periods respectively, compared to the Global MSCI Index.

Table 10

Company name	Enterprise value[1] (AUD million)	Debt to enterprise value (%)	2-year weekly		4-year monthly	
			Levered	Unlevered	Levered	Unlevered
Alchemia Limited	**7**	**0%**	**n/m**	**n/m**	**n/m**	**n/m**
International pharmaceutical companies						
Mylan	43,708	24%	1.15	0.88	0.99	0.73
Perrigo Company Public Limited Company	41,804	14%	0.63	0.58	0.18	0.17
Endo International plc	26,652	14%	1.22	0.96	1.21	0.87
Aspen Pharmacare Holdings Limited	17,905	18%	0.62	0.54	0.39	0.35
Dr. Reddy's	14,543	1%	0.62	0.61	0.42	0.41
CSPC Pharmaceutical Group Limited	7,480	1%	0.85	0.84	1.82	1.69
Stada-Arzneimittel AG	5,283	36%	1.09	0.75	1.00	0.67
Lannett Company, Inc.	2,524	0%	n/m	n/m	n/m	n/m
Nichi-Iko Pharmaceutical Co., Limited	2,441	6%	1.07	1.01	0.61	0.56
Sagent Pharmaceuticals, Inc.	737	0%	0.88	0.88	1.45	1.43
Average		**11%**	**0.90**	**0.78**	**0.90**	**0.76**
Median		**10%**	**0.88**	**0.84**	**0.99**	**0.67**
Low		**0%**	**0.18**	**0.17**	**0.17**	**0.17**
High		**36%**	**1.22**	**1.01**	**1.82**	**1.69**

Note:
1. Enterprise value as at 21 September 2015
Source: CapitalIQ, Deloitte Corporate Finance analysis

The observed beta is a function of the underlying risk of the cash flows of the company, together with the capital structure and tax position of that company. This is described as the levered beta.

The capital structure and tax position of the entities in the table above may not be the same as a typical acquirer of the Assets. The levered beta is often adjusted for the effect of the capital structure and tax position. This adjusted beta is referred to as the unlevered beta. The unlevered beta is a reflection of the underlying risk of the pre-financing cash flows of the entity.

Selected beta (β)

The Assets consist of both the Fonda IP and the Profit Share Rights under agreements with Dr. Reddy's, which is responsible for manufacturing, marketing, distribution and obtaining necessary market approvals. The drug was approved in 2011 and is currently sold in the US, Canada and India.

The Assets do not have any directly comparable companies in Australia or internationally. We note that while the Assets constitute Alchemia's main undertaking, Alchemia's betas are not meaningful due to their low correlation with to the market as a result of low trading volumes and its recent share price drop following the announcement of the failure of HA-Irinotecan.

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Therefore in selecting an appropriate beta for the Assets, we have considered a broader suite of companies that operate in generic drug markets internationally.

We note the following:

- the average unlevered beta for international pharmaceutical companies is 0.78 and 0.76 on a two year weekly and four year monthly basis, respectively
- the comparable pharmaceutical companies operate in the global generics market, which is consistent with the Assets. However, the comparable companies manage large, diversified drug portfolios compared to the Assets, which cover one generic drug, fondaparinux. We have separately considered the size of the fondaparinux markets worldwide in selecting a specific risk premium below
- we have not considered other companies in the Biotechnology industry as their risk profile reflects a much higher level of uncertainty attributed to drug portfolios in an early stage of development, compared to fondaparinux which is well advanced in its lifecycle and has been generating sales since 2011.

We have selected an unlevered beta in the range of 0.90 to 1.0 for the Assets, based on our selected gearing ratio of nil and corporate tax rate of 20% for the Assets.

Risk premiums (α)

Specific risk premiums adjust the cost of equity for specific factors, including unsystematic risk factors such as:

- Size (which we discuss in detail below)
- depth and quality of management
- reliance on one key individual or a few key members of management
- reliance on key customers
- reliance on key suppliers
- product diversity (limits on potential customers)
- geographic diversity
- labour relations, quality of personnel (union/non-union)
- capital structure, amount of leverage
- existence of contingent liabilities.

The CAPM assumes, amongst other things, that rational investors seek to hold efficient portfolios, that is, portfolios that are fully diversified. One of the major conclusions of the CAPM is that investors do not have regard to specific company risks (often referred to as unsystematic risk).There are several empirical studies that demonstrate that the investment market does not ignore specific risks. In determining the applicable risk premium, we have had regard to:

- size premium: the implied value of the Assets having regard to the global market size for fondaparinux, and the single profitable market, being the US, is significantly less than the enterprise values of the comparable companies, which have exposure to substantially larger markets due to their diversified drug portfolio. In comparison the market for Alchemia fondaparinux is currently limited to the anticoagulants industry in the US, Canada and India
- future earnings: as noted in Section 2.2.2, there is uncertainty around the earnings prospects for the drug as it faces increased competition in the anticoagulants market from existing generics, other companies filing ANDA and DMF approvals and new oral products. In addition fondaparinux is not currently profitable in markets other than the US due to local pricing pressures and the labour intensive production process to manufacture the drug which in combination limit its potential for growth. Also, the collaboration, development and marketing agreements for the US and Canada and manufacturing agreement expire in 2017 with automatic two year rolling extensions, however Dr. Reddy's is able to terminate the agreements after 2017 with sufficient notice
- reliance on key agreements: Alchemia is dependent on Dr. Reddy's to manufacture, market and distribute fondaparinux. The supply price and commercial expenses are negotiated on an annual basis. Dr. Reddy's has substantial bargaining power in these negotiations given the limited life remaining on the fondaparinux

patents (at which point Dr. Reddy's can sell the drug themselves) and the substantial costs required to transfer the technology to an alternate manufacturer.

In our opinion, a potential purchaser for the Assets would incorporate a specific risk premium to take into account the above factors. We have selected a specific risk premium in the range of 2.0% to 3.0%.

Debt and equity mix

We have considered the following factors in estimating a debt to equity mix of nil for the Assets:

- gearing is generally low in pharmaceuticals industry with an average gearing of 9.0% observed in the comparable companies set out in Table 10
- fondaparinux is not a new drug and already faces strong and increasing competition compared to the portfolio of drugs offered by the comparable companies
- Alchemia's gearing of nil, and Dr. Reddy's gearing of 1.0%.

Due to the assumed debt to equity ratio of nil, we have not determined an assumed cost of debt.

Conclusion on the WACC

Based on the above, we have assessed the nominal post-tax WACC for the Assets as set out below.

Table 11

Input	Low	High
Risk free rate (%)	2.68	2.68
EMRP (%)	6.25	6.25
Beta	0.90	1.00
Specific company risk premium (%)	3.0	4.0
K_e – calculated (%)	**11.3**	**12.9**
Debt to enterprise value ratio (%)	0.0	0.0
Tax rate (%)	20.0	20.0
WACC (%)	**11.3**	**12.9**
Selected WACC (%)	**11.0**	**13.0**

Source: Deloitte Corporate Finance analysis

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Appendix D: Benchmarking analysis – tax rates

Table 12

USD million Entity	Reporting Date	Profit / (loss) before tax	Tax expense / (benefit)	Effective tax rate
Alchemia Limited	**30-Jun-15**	**(13.7)**	**(2.3)**	**n/m**
International pharmaceutical companies (both branded and generic)				
Novartis AG	31-Dec-14	12,272.0	1,545.0	12.6%
Pfizer Inc.	31-Dec-14	12,238.0	3,120.0	25.5%
Sanofi	31-Dec-14	6,875.3	1,417.4	20.6%
Teva Pharmaceutical Industries Limited	31-Dec-14	3,633.0	591.0	16.3%
Valeant Pharmaceuticals International, Inc.	31-Dec-14	1,092.6	180.4	16.5%
Mylan	31-Dec-14	974.5	41.4	4.2%
Aspen Pharmacare Holdings Limited	30-Jun-15	538.2	110.2	20.5%
Dr. Reddy's	31-Mar-15	450.5	95.7	21.2%
Orion Oyj	31-Dec-14	324.3	68.5	21.1%
Recordati SpA	31-Dec-14	260.0	64.9	24.9%
Perrigo Company Public Limited Company	27-Jun-15	248.0	120.0	48.4%
Lannett Company, Inc.	30-Jun-15	227.4	77.4	34.0%
CSPC Pharmaceutical Group Limited	31-Dec-14	209.1	43.5	20.8%
Stada-Arzneimittel AG	31-Dec-14	150.9	66.1	43.8%
Impax Laboratories Inc.	31-Dec-14	90.6	33.2	36.7%
Nichi-Iko Pharmaceutical Co., Ltd.	31-Mar-15	79.1	24.1	30.5%
Average				**24.9%**
Median				**21.2%**
Low				**4.2%**
High				**48.4%**

Source: Capital IQ, Deloitte Corporate Finance analysis

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Alchemia

Alchemia Limited
ABN 43 071 666 334

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
Alchemia Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

ALL ENQUIRIES TO
Telephone: +61 1300 554 474

X99999999999

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PROXY FORM

I/We being a member(s) of Alchemia Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐ **the Chairman of the Meeting *(mark box)***

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **3:00pm (Melbourne time) on Tuesday, 10 November 2015 at Grant Thornton, Level 30, The Rialto Tower, 525 Collins Street, Melbourne VIC 3000** (the **Meeting**) and at any postponement or adjournment of the Meeting.

Important for Resolution 3: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 3, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Resolutions	For	Against	Abstain*
2 Election of Ken Poutakidis			
3 Remuneration Report			
4 Approval of Sale of Fondaparinux Intellectual Property			
5 Appointment of Auditor			

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

ACL PRX501C

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form, including where the Resolution is connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **3:00pm (Melbourne time) on Sunday, 8 November 2015,** being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

ONLINE
www.linkmarketservices.com.au
Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).

BY MAIL
Alchemia Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

BY FAX
+61 2 9287 0309

BY HAND
delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU. THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.

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