NOVOGEN

18 June 2013

Distribution of MEIP shares – Tax Implications

This is an updated report that reflects our opinion that the *in-specie* distribution or MEIP shares was a Dividend under 26 USC 301 of the IRC, rather than a Demerger as first claimed. We continue to believe that the distribution was an eligible Demerger under Australian law.

We are not tax experts. Novogen has prepared this report using its best endeavours, but does not guarantee that the guidance provided herein is correct. Novogen recommends that all Novogen Stockholders obtain their own specialist tax advice as to the taxation consequences of the Demerger of Novogen and MEI Pharma.

All figures in this document are in US Dollars unless otherwise stated

Introduction

At Novogen's Annual Meeting on 12 November 2012, shareholders approved the demerger of Novogen and MEI Pharma by the requisite majority. The demerger is now complete. As a consequence, affected stockholders need to be able to recalculate the tax basis of their stock.

We had thought that the distribution satisfied the Demerger provisions of the US tax code, but we now believe that it properly falls under 26 USC 301 as a Dividend.

There was concern that a similar situation might exist in Australia, as MEI Pharma was not 100% owned by Novogen, but Sections 125-65 and 125-70 of the ITAA together with Class Ruling 2011/83 for Amcom Telecommunications Limited indicate that the distribution was an eligible Demerger under Australian tax law - see http://law.ato.gov.au/atolaw/view.htm?Docid=CLR/CR201183/NAT/ATO/00001

We have used the relative Fair Market Values (FMV) of Novogen and MEI Pharma on the date of distribution to calculate the adjusted cost basis for each stock. The distribution was delayed in the US while MEI Pharma conducted a 1-for-6 share consolidation.

The distribution dates for FMV purposes are deemed to be:

- 27 November 2012 in Australia, the date Novogen ordinary shares (NRT) traded without their MEIP entitlement. The FMV for MEIP on 27 November 2012 was $1.46 which was equivalent to $8.76 post consolidation
- 25 January 2013 in the US, the date Novogen ADR's (NVGN) first traded without their MEIP entitlement. The FMV for MEIP on 25 January 2013 was $5.975

Summary

We provide the following information:

- The demerger of MEI Pharma resulted in a Capital Reduction to Novogen of $26,042,379 (17,837,246 MEIP shares issued at a value of $1.46 each)

- We calculate that the Capital Return to stockholders was $0.2509 per ordinary Novogen share. As distribution in the US is deemed to be a Dividend, the Capital Return to NVGN stockholders is based on different criteria (see next section).
- For NVGN stockholders, we believe that under 26 USC 301, the *in*-specie distribution of MEIP stock to NVGN stockholders was a Dividend under US tax law. The implications of this opinion are set out in IRS Form 8937 published at http://novogen.com/irs-form-8937/. Among other things, it states:
    - The deemed dividend date in the US was 25 January 2013
    - The Fair Market Value (FMV) of MEIP shares on 25 January 2013 was $5.975 per share
    - No dividend need be declared as Novogen had no prior earnings
    - $5.975 multiplied by the number of MEIP shares received is defined as a Capital Return that can be used to reduce the cost basis of NVGN shares toward zero.
    - Once the cost basis of NVGN reaches zero, any amount remaining is a Capital Gain.
    - Summary:
        - MEIP cost basis for NVGN stockholders = $5.975 per share
        - NVGN cost basis is adjusted downward by the value of MEIP share received at $5.975 per share
        - Any amount remaining after the cost basis of NVGN shares has reached zero is a Capital Gain.
- For NRT stockholders, we believe the distribution was an eligible Demerger under Sections 125-65 and 125-70 of the Income Tax Assessment Act. A CGT liability may exist if the Capital Return for an individual's MEIP shares is greater than the cost basis of the those shares, but roll-over relief should be available under subsection 125-55(1) of the ITAA.
    - For NRT stockholders, we calculate that:
        - 73.55% of the pre-distribution tax basis in NRT shares should be allocated to MEIP common stock received in the distribution, and
        - 26.45% of the pre-distribution tax basis in NRT shares should be allocated to NRT shares.

We reiterate our strong recommendation that Novogen stockholders should seek independent, expert tax advice. We are not tax experts.

Context

Leading up to the Novogen AGM in 2012, the share price of MEIP was about $0.40.

Novogen had contemplated a Capital Reduction of about $7,000,000 based on a share price of $0.40 for MEIP and the planned *in-specie* distribution of 100% of its holding in MEIP, about 17.8 million shares. On 27 November 2012, the day on which Novogen ordinary shares first traded without their MEIP entitlement, the MEIP share price closed at US$1.46. As a consequence, the Capital Reduction became $26,042,379.

The original pro-rata distribution was to be 6 MEIP for every 35 NRT, or about 4.28 MEIP for every NVGN ADR (1 NVGN = 25 NRT), but MEIP conducted a 1 for 6 share split on 19 December 2012 before the distribution could be completed. The reduced distributions became:

- 1 MEIP for every 35 NRT, and
- 5 MEIP for every 7 NVGN

Many methods can be used to establish Fair Market Values. We have chosen to use the price on the day the NRT and NVGN stocks first traded without their MEIP entitlement. These dates were different because:

- NRT stockholders received their MEIP entitlement on or about 27 November 2012.

- Administrative complications outside the control of Novogen meant that NVGN stockholders did not receive their MEIP entitlement until about 25 January 2013.

The respective FMV prices were:

- 27 Nov 12 MEIP = $8.76 (after allowing for split)
- NRT = $0.09
- 25 Jan 13 MEIP = $5.975

Example

Capital Return to stockholders:

- MEIP shares issued = 17,837,246
- Value of MEIP shares at distribution date = $1.46 ($8.76 post consolidation)
- Capital Reduction to Novogen = $26,042,379
- Novogen ordinary shares issued = 103,805,676
- Capital Reduction per NRT share = $0.2509
- Capital Return per NRT =$0.2509

Assume 1400 NRT held:

Stock	**Holding**	**Price**	**FMV**	**% of total**
NVGN	1400	$ 0.09	$ 126.00	26.45%
MEIP	40 (1 for 35)	$ 8.76	$ 350.40	73.55%
		Total	$ 476.40	100.00%

Suppose 1,400 NRT cost $ 560.00 or $0.40 each

- The post-distribution tax basis for the NRT stock should be $ 560.00 *26.45% = $ 148.12 or $0.106 per NRT share

- The post-distribution tax basis for MEIP should be $ 560.00 * 73.55% = $ 411.88 or $10.297 per share (40 MEIP held)

- The Capital Return, by our calculation, would be $0.25 per NRT, compared to a cost basis of $0.40 in this example.

Conclusion

We have tried our best to get this report right, but we do not guarantee that the Conoco precedent would be acceptable to tax regulators, nor that our assumptions, calculations and opinions are correct.

This report is not intended to be definitive advice; rather, it is intended to provide a guide for your financial adviser so that the correct tax action can be taken in individual circumstances