

## LETTER TO SHAREHOLDERS

Dear Shareholder

This General Meeting has been called to seek approval of Progen Shareholders to a number of resolutions associated with the proposed merger of Progen with Avexa Limited ("Avexa") and a proposed \$20 million share buy back.

At Progen's AGM, I announced that Progen intended to assess merger and acquisition options that could deliver value for shareholders in excess of \$1.10 per share. Following a review of opportunities, Progen announced plans on 22 December to merge with Avexa to create one of Australia's leading biotechnology companies. The directors confirm their unanimous recommendation for the current merger with Avexa and believe that the Merger has the potential to deliver value in excess of \$1.35 per share and hence is in the best interests of shareholders as a whole.

Assuming the Merger is approved by Progen and Avexa Shareholders and the Court, Progen Shareholders will have the following options:

- maintain their shareholding in the merged company to be called Avexa Pharmaceuticals Limited<sup>1</sup>. The implied per share value of the merged company to Progen Shareholders is \$1.35 per share (based on the exchange ratio and the share price of Avexa immediately prior to the transaction announcement). BDO Kendalls Corporate Finance (QLD) Limited ("**BDO Kendalls**"), the independent expert appointed to report on the Buy Back, has determined that a discounted cash flow valuation of ATC implies a value of \$2.03 to \$3.18 per share for the Merged Entity
- sell their shares into the Buy Back at a price of \$1.10 per share<sup>2</sup>
- sell part of their shares into the Buy Back and maintain part of their shareholding in the merged company.

Avexa is a Melbourne based biotechnology company with a focus on discovery, development and commercialisation of small molecules for the treatment of infectious diseases.

Avexa's lead program is apricitabine (ATC), an anti-HIV drug which has successfully completed the 48 week dosing of its Phase IIb trial and is currently in Phase III trials in over 130 specialist HIV centres in 15 countries. Avexa's key earlier stage projects include its HIV integrase program and an antibiotic program for antibiotic-resistant bacterial infections.

The primary focus of the Merged Entity will be the continued development of ATC. Your Directors have undertaken extensive due diligence on Avexa in general and on Avexa's lead compound, ATC, including receiving advice from two internationally recognised experts in the HIV field. To date, the results of ATC's clinical trials have been promising. Avexa expects to release Week 16 data from the ATC Phase III trial in the second quarter of 2009 which will provide information on the progress of the trial, and week 24 data in late 2010. Both of these

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<sup>1</sup> Name change from Progen Pharmaceuticals Limited to Avexa Pharmaceuticals Limited is subject to shareholder approval at this meeting.

<sup>2</sup>The Buy Back is subject to shareholder approval and a cap of \$20 million, representing 18,181,818 shares or approximately 30% of Progen Shares on issue. If the cap is exceeded shareholders will be scaled back on a pro-rata basis. The Merger may proceed if it is approved by Progen Shareholders even if the Buy Back is not approved.

milestones are likely to be major value inflection points in the development of ATC, and a positive outcome in respect of the week 24 data may allow the Merged Entity to apply for a New Drug Application filing in early 2011.

Loneragan Edwards & Associates Limited ("**LEA**"), an independent expert commissioned by Avexa for its shareholder meeting to be held to consider the Scheme, has valued ATC at \$151.4m to \$225.8m<sup>3</sup>. BDO Kendalls, the independent expert appointed by Progen to consider the Buy Back, have also concurred, in all material respects, with the valuation methodology and calculations of ATC prepared by LEA<sup>4</sup>.

The key anticipated outcomes of the Merger include:

- creating one of Australia's leading biotechnology companies
- bringing together a diverse portfolio of assets across oncology and infectious diseases at various stages of development with both near and long term milestones and significant market potential
- facilitating the continued key focus on the further development of ATC, which is one of only two new HIV therapies in Phase III clinical trials anywhere in the world. To date, the results of ATC's clinical trials have been promising. Avexa expects to release Week 16 data from the ATC Phase III trial in the second quarter of 2009, which will provide information on the progress of the trial. This may prove to be an important value inflection point
- creating a merged balance sheet with a projected cash balance of over \$60 million, which is expected to provide sufficient cash to fund, amongst the merged group's other selected projects, the clinical trials of ATC through to the week 24 milestone of the first Phase III study, expected late 2010. This milestone is a key value inflection point and a positive outcome could potentially result in a new drug application ("NDA") filing for ATC in early 2011, based on this data
- enhancing the merged group's ability to realise the significant benefits of progressing a combined oncology and anti-viral portfolio of pharmaceutical technologies, including research synergies, clinical development and regulatory pathways
- improving the merged group's flexibility to license and create partner programs.
- enabling Progen Shareholders to have the option to receive a return of cash through the proposed share Buy Back at \$1.10 per share<sup>5</sup>,

The Merger is subject to approval by Avexa Shareholders and the Court of a scheme of arrangement under which the Avexa Shareholders will receive one Progen Share for every 12.857<sup>6</sup> Avexa Shares. Your Board required as a condition to the Scheme coming into effect that Progen Shareholders also approve the Merger by ordinary resolution.

Based on the closing prices of both Progen (\$0.90) and Avexa (\$0.105) on the business day

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<sup>3</sup> Prior to taking into account finance risks and the dilution likely to arise in order to raise the additional equity capital required to fund future development costs.

<sup>4</sup> BDO Kendalls report is on the Buy Back and BDO Kendalls expresses no opinion on the Merger.

<sup>5</sup> The Buy Back is subject to shareholder approval and a cap of \$20 million, representing 18,181,818 shares or approximately 30% of Progen Shares on issue. If the cap is exceeded shareholders will be scaled back on a pro-rata basis. The Merger may proceed if it is approved by Progen Shareholders even if the Buy Back is not approved.

<sup>6</sup> This ratio is subject to adjustment if Progen's Liquid Asset balance is less than \$67.5 million 2 days before the Second Court Hearing - see section 1.5 of the Explanatory Memorandum for details.

before the Merger announcement, this ratio implies a value of \$1.35 per Progen Share, a premium of 49.6%. The implied value per Progen Share of \$1.35 is greater than the expected cash backing per Progen Share of between \$1.10 and \$1.15 at the proposed effective date of the Merger.

The merged entity will be owned 56% by Progen Shareholders and 44% by Avexa Shareholders, assuming the \$20 million buy back is fully subscribed and there is no adjustment to the exchange ratio under the transaction terms if Progen's cash balance is less than anticipated.

The enclosed Notice of Meeting and Explanatory Memorandum contain important information about the proposed merger and the following resolutions:

- approval of the Merger
- a change of company name to Avexa Pharmaceuticals Limited (subject to the Merger being completed)
- approval of the proposed \$1.10 per share Buy Back to Progen Shareholders.

Importantly, the Explanatory Memorandum sets out the Board's views on the advantages and potential disadvantages and risks of the Merger and information on the options likely to be available to the Progen Board if the Merger does not proceed for any reason.

The Board engaged BDO Kendalls to provide an independent expert report on the advantages and disadvantages of the Buy Back as well as the value of the shares in the merged company for the purposes of the Buy Back. A copy of that report is enclosed. BDO Kendalls has concluded that on balance and in the absence of an alternative proposal, ***the approving of the proposed voluntary share Buy Back is in the best interests of the Progen Shareholders.***

BDO Kendalls do not provide an opinion as to whether or not a shareholder should offer their shares to be bought back if the proposed voluntary share Buy Back is approved. This is a matter for individual shareholders depending on their own circumstances. Progen Shareholders should note that the BDO Kendalls report is on the Buy Back and BDO Kendalls expresses no opinion in relation to the Merger.

You may be aware that a group of Progen Shareholders holding just over 5% of shares on issue (including Cytopia Limited) have requisitioned a shareholders meeting to consider resolutions to approve a 100% buy back of shares, the removal of all current directors and appointment of three new directors (who are shareholders in Cytopia Limited) and to rescind previous shareholder resolutions, including any resolution to merge with Avexa. Cytopia Limited has declared that the new directors proposed by the shareholder group have a declared platform of exploring a merger between Cytopia Limited and Progen. The Progen Board will respond appropriately to the requisition in due course.

Cytopia's announcement of the requisition made to ASX on 28 January 2009 refers to a proposed merger with Progen. Incomplete and non-binding proposals were received from Cytopia last year before Progen entered into its Merger Implementation Agreement with Avexa. The Cytopia proposals were considered by the Board of Progen to be inferior to the current merger proposal with Avexa. No further merger proposal has been received from Cytopia. There are no details of the Cytopia proposal referred to in the announcement, so there is uncertainty as to what terms it is offering, what its strategy would be going forward and what cash balance a combined group would have to support operations.

Your Board unanimously recommends that you support the Avexa Merger by voting **FOR** all of the resolutions at this General Meeting. However, you should note that only Resolution 1, approving the Merger, is required to be passed for the Merger to proceed. The Merger is not conditional on any of the other resolutions being passed, including the resolution to approve the

Buy Back.

The Buy Back booklet containing information in the Buy Back invitation is scheduled to be despatched to you before the General Meeting. Indicative timing is set out in the Explanatory Memorandum. However, it is important to note that completion of the Buy Back is conditional on the Merger being approved and becoming effective.

We look forward to seeing you at the General Meeting. If you cannot attend, we encourage you to appoint a proxy to attend and vote on your behalf. Instructions on how to do so are contained in the enclosed proxy form.

If you are unsure how to respond to the information in the Meeting Documentation or on how to vote, we encourage you to consult your professional financial adviser.

We look forward to your continued support in this exciting new era for your company.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Mal Eutick', written in a cursive style.

Dr Mal Eutick OAM, Chairman  
2 February 2009