

## Tax Information Provided to Canadian Shareholders of Emergent BioSolutions Inc.

### Caution -- A Taxpayer Must Specifically Make an Election to Enjoy Tax Deferred / Rollover Basis Treatment for the Emergent BioSolutions Inc. Spin-off Transaction of its Biosciences Business

#### Section 86.1 Information for Canadian Shareholders and Additional Information for Québec Income Tax Filers

THE FOLLOWING DISCUSSION IS A SUMMARY OF MATERIAL CANADIAN FEDERAL INCOME TAX BASIS CONSEQUENCES OF THE DISTRIBUTION UNDER CURRENT LAW AND IS FOR GENERAL INFORMATION ONLY. THE INFORMATION CONTAINED HEREIN DOES NOT CONSTITUTE TAX ADVICE AND DOES NOT PURPORT TO DESCRIBE THE CONSEQUENCES THAT MAY APPLY TO PARTICULAR CATEGORIES OF SHAREHOLDERS. ALL SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE DISTRIBUTION TO THEM, INCLUDING THE APPLICATION AND EFFECT OF CANADIAN FEDERAL, PROVINCIAL AND FOREIGN TAX LAWS.

On August 1, 2016, Emergent BioSolutions Inc. (“EBSI”) completed a reorganization in which it spun-off<sup>1</sup> its biosciences business assets (the “Distribution”) into a newly created entity, Aptevo Therapeutics Inc. (“Aptevo”), a corporation resident in the United States for purposes of the Act and the Treaty. Each EBSI shareholder that held common stock on July 22, 2016, the record date for the Distribution, received 0.5 shares of Aptevo common stock for every 1 share of EBSI common stock held by such shareholder. EBSI shareholders received cash in lieu of fractional shares of Aptevo common stock. If you held EBSI shares that participated in this reorganization and received a share distribution, this memo may contain important Canadian tax information for you.

Where a Canadian shareholder of a foreign company (“distributing company”) receives a distribution of shares (“spin-off shares”) as a result of the distributing company’s eligible corporate reorganization (“spin-off”), section 86.1 of the federal Canadian *Income Tax Act* may permit such a spin-off share distribution to pass to the shareholder on a rollover basis (e.g. taxation of any gain is deferred), **provided the shareholder complies with certain filing (or election) requirements specified in section 86.1.** This memo provides a basic overview of the filing requirements. The EBSI spin-off of Aptevo has been approved by the Canada Revenue Agency for this treatment. **Canadian shareholders should consult a tax specialist for determining their tax results.** This memo provides only a basic overview of the filing requirements and offers no accounting or tax guidance. Additional information for Québec income tax filers is also provided below.

Please note that all references to *shares* in this memo are references to *common shares* and the term *taxpayer* and *shareholder* are used interchangeably. Dollar amounts are US Dollar.

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<sup>1</sup> The term “spin-off” is used to describe the separation of the biosciences business by EBSI via an exchange offer. The term spin-off is consistent with Canadian tax terminology. For US tax purposes, the term “split-off” could be used to describe the exchange offer. Additional transaction details may be found at <https://emergentbiosolutions.com/spinoff>.

### **Section 86.1 Election and Canadian Tax Filing Requirements for Spin-Off**

**In order for spin-off shares on an eligible distribution to pass to the shareholder on a rollover (tax-free) basis, paragraph 86.1(2)(f) of the *Income Tax Act* requires the taxpayer (shareholder) to provide the following documentation and information to the Canada Revenue Agency (CRA):**

1. A letter addressed to the CRA stating that the taxpayer wishes section 86.1 of the Income Tax Act to apply to the spin-off share distribution that has been approved as eligible by the CRA (the taxpayer must use a letter as there is currently no prescribed form for this election). The taxpayer cannot use the EFILE or NETFILE services to file their T1 return for the tax year to which the election relates (in this case, the 2016 taxation year). Sample letter is below.
2. The letter must be filed with the taxpayer's income tax return, within the prescribed filing time, for the taxation year in which the distribution took place (late filings may be accepted, but penalties may apply).
3. The letter must state the following information about the shares of the distributing company ("original shares" or "EBSI shares") the taxpayer owned immediately before the distribution of the spin-off shares to the shareholder.
  - a. The number of the original shares owned.
  - b. The aggregate adjusted cost base of all the original shares to the taxpayer (e.g. the price the shareholder paid on acquisition of the shares).
  - c. The aggregate fair market value of all the original shares owned by the taxpayer immediately before the distribution (see Appendix).
4. The letter must state the following information about the original shares and the spin-off shares the taxpayer owned immediately after the distribution of the spin-off shares to the shareholder:
  - a. The number of the original shares owned.
  - b. The aggregate fair market value of all the original shares owned immediately after the distribution (see Appendix).
  - c. The number of the spin-off shares received by the taxpayer.
  - d. The aggregate fair market value of all the spin-off shares owned immediately after the distribution (see Appendix).
5. We recommend that the letter reference the CRA website at <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/spnffs-eng.html> which states the CRA's approval of the section 86.1 eligibility of the EBSI spin-off and/or enclose a copy of the CRA letter which confirms that eligibility. A copy of the CRA letter is available on <https://emergentbiosolutions.com>.

### **Additional Spin-Off Information for Québec Income Tax Filers**

Québec income tax filers who wish to take advantage of the section 86.1 rollover for the EBSI distribution for both, the federal and Québec tax purposes, should enclose, in their Québec income tax return, a copy of the section 86.1 election letter addressed to the CRA and also a separate letter addressed to Revenue Québec explaining that the enclosed copy of the letter to the CRA is in compliance with subsection 578.1(f) of the Québec *Taxation Act* and sets out the information required by subsection 578.3(2) of the Québec *Taxation Act*. Québec filers should additionally enclose a copy of the CRA letter which confirms the eligibility of the August 1, 2016 EBSI spin-off. An electronic version of the CRA letter is available on the EBSI website mentioned above.

### **Tax Impact - Other Events Following Spin-Off**

**Taxpayers are strongly encouraged to determine their tax implications and filing positions regarding the other events associated with the transaction with a tax specialist.**

In regards to the cash compensation for any non-issued fractional shares of Aptevo, where the total compensation does not exceed \$200 and where the shareholder qualifies for the rollover provisions described above, the shareholder should be able to choose whether to report any gain or loss on the disposition of the fractional share or whether to ignore the gain/loss computation and reduce the adjusted cost base of the Aptevo shares by the cash received. If the cash received for fractional shares exceeds \$200, the taxpayer must report the gain or loss.

## APPENDIX

### **Determining the Fair Market Values of the Shares for the Section 86.1 Election Letter:**

1. The fair market value of one original EBSI share immediately before the distribution is \$33.39, which is the closing price on the last trading day prior to transaction or July 31, 2016.
2. The fair value of one share of Aptevo immediately after the Spin-Off Distribution is \$3.505, which is the average of the high and low trading prices of the Aptevo common stock on the NASDAQ on the date of distribution.
3. The fair market value of one original share of EBSI stock after the Distribution is \$31.10, which is the average of the high and low trading prices of the EBSI common stock on the NYSE on the date of distribution.

To complete the Section 86.1 election disclosures, you should apply the above share values to the applicable share counts, based on your circumstances.

### **Determining the Adjusted Cost Base of Original EBSI Shares for the Section 86.1 Election Letter:**

The shareholder must provide the aggregate adjusted cost base of all the original EBSI shares owned immediately before the distribution. This can be determined by aggregating the historical cost paid for each original EBSI share. A shareholder will need to review his or her records for this.

### **Sample Letter to Send Along with Tax Return to Elect Rollover Basis Treatment per Section 86.1 Assuming 100 Shares Owned:**

Date \_\_\_\_\_ Taxpayer Name/Address/Tax Identification No. \_\_\_\_\_

Canadian Revenue Agency/Address \_\_\_\_\_

Taxpayer elects rollover basis treatment under section 86.1 for a spin-off of the biosciences business of Emergent BioSolutions Inc. ("EBSI"), Aptevo Therapeutics Inc. ("Aptevo"), on August 1, 2016. This transaction was approved for such treatment. See February 6, 2017 CRA letter (copy attached) and <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/spnffs-eng.html>.

#### **Prior to Spin-off Transaction:**

1. Original EBSI shares owned are XX shares<sup>2</sup>.
2. Aggregate adjusted cost basis of XX EBSI shares is \$XXX.
3. The aggregate fair value of XX EBSI shares at date of transaction is \$XXX (\$33.39 per share).

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<sup>2</sup> This disclosure is for all original shares owned.

### Immediately After Transaction

1. Original EBSI shares owned after transaction are XX shares.
2. Fair value of XX EBSI shares is \$XXX (at \$31.10 per share).
3. Aptevo shares owned after transaction are XX shares.
4. Fair value of XX Aptevo shares is \$XXX (at \$3.505 per share).

Taxpayer Signature

\*\*\*\*\*Enclose a copy of any slip (1099-DIV) received regarding this transaction\*\*\*\*\*

### **Allocating Adjusted Cost Base of the Original EBSI Shares to (1) EBSI Shares Retained and (2) New Aptevo Shares to Determine Future Gains and Losses:**

Although not a part of the Section 86.1 election disclosure, for future gain/loss determinations, the shareholder will need to allocate the aggregate adjusted cost base (ACB) of the original pre-distribution EBSI shares proportionately to (1) the EBSI shares retained and (2) the distributed Aptevo shares.

**Example** -- A shareholder holds 100 original EBSI shares with an ACB of \$100 per share. Per the spin-off exchange, 50 shares of Aptevo were received; the resulting adjusted cost bases of the EBSI and Aptevo shares would be as follows:

	(A)	(B)	(A x B)	
		<u>Exchange ratio</u>	<u>FMV</u>	<u>Allocation %</u>
<b>FMV of EBSI share (post-distribution)</b>	\$ 31.10 <sup>3</sup>	1.0	\$ 31.10	94.67%
<b>FMV of Aptevo share (post-distribution)</b>	\$ 3.505 <sup>3</sup>	0.5	\$ 1.753	5.33%
			\$ 32.853	100.00%

- 1) The adjusted cost base (ACB) of EBSI shares are \$94.67 per share (\$100 original ACB x 94.67%).
- 2) The ACB of Aptevo shares are \$5.33 per share (\$100 original ACB x 5.33%).

In this example, the shareholder should have received 50 shares of Aptevo (100 owned EBSI shares x 0.5).

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<sup>3</sup> There is no definitive guidance under existing Canadian federal income tax law as to the proper method for determining the fair market value of stock for such purpose. One reasonable method would be to use the average of the high and low trading prices of the EBSI and Aptevo common stock on the NYSE and NASDAQ on the date of the Distributions.