



25 June 2010

Dear Avexa Shareholder,

We hope that you had an opportunity to review the Notice of Meeting sent to all Shareholders on 26 May 2010. Although the parties responsible for requisitioning this General Meeting have not formally stated their strategy for your Company and have not disclosed what they intend to do with the cash assets of the business, Avexa is now aware that an undated letter was recently sent to Shareholders signed by "Shareholders that invested in Avexa for ATC".

The anonymous letter recommends shareholders vote in favour of all the proposed resolutions at the upcoming General Meeting, provides biographies for the proposed directors Mr Bruce Hewett and Mr Steven Crowley together with a blank Proxy Form. Finally, this letter argues strongly in favour of a strategy to re-launch the development of apricitabine (ATC).

Your Board is deeply concerned as this letter contains inaccurate and misleading statements. In the letter, the success of the drug Isentress is cited as evidence that there is a market for a drug like ATC. Proposing such a comparison is misleading. In fact, approval of Isentress and drugs like it actually raised the hurdle and shrunk the market for a drug like ATC during its development. Below are some of the key reasons why:

1. Isentress is the first drug approved in an entirely new class of antiretroviral agents called integrase inhibitors. By definition of being first in class, there is no competition and therefore these drugs tend to generate higher sales. On the contrary, ATC's mechanism of action is NOT an integrase inhibitor but rather a nucleoside reverse transcriptase inhibitor (NRTI). NRTI's are one of the oldest classes of antiretroviral agents available. ATC would have to compete against well established drugs on the markets such as AZT, ddI, ddC, D4t, 3TC, FTC and Abacavir and a closely related class of drug called nucleotide reverse transcriptase inhibitors which include Tenofovir.
2. Isentress has unique clinical aspects that make it particularly attractive to prescribing physicians and their patients vs. other available HIV treatments. In terms of efficacy, Isentress has the best drop in viral kinetics of any HIV drug ever approved. In laymen's terms, Isentress drops the number of circulating viral particles in a patient's blood faster than any other drug. This attribute speaks to the power of this drug and of this class vs. other drugs and other classes.
3. Isentress has a unique safety profile. HIV medications have historically been quite toxic. Over time, as treatments evolved, the focus of safety has changed as people are living longer on therapy. Today, patients can live for decades and HIV is now considered a chronic condition. When physicians now prescribe medications, they need to consider that patients will live longer lives on these drugs. Historically, what were considered minor safety issues such as a drug's impact on cholesterol or insulin tolerance are now major issues. Isentress has virtually no impact on cardiovascular parameters and this along with its antiviral power makes for a unique and compelling differentiated clinical profile. ATC's side effect profile is not as differentiated compared with other NRTI's.
4. Isentress is marketed by Merck & Co, one of the largest pharmaceutical companies in the world with a premier global sales force. The letter states that Isentress sold US\$680M in sales in 2009. This total includes its label and off label usage in early and naive lines of therapy. Isentress's sales by definition are higher than what would be possible for a newly approved refectory labeled drug.

The "vision" outlined by "Shareholders that invested in Avexa for ATC" does not take into account all the available information. There are many key factors one needs to consider when investing substantial shareholder capital in a program such as ATC. Issues around marketing, patent life, partnership landscape, funding requirements and the market in general play an important role in the evaluation process. Yes, ATC has positive Phase II and III data, but it takes competitive data to be successful. Ultimately, ATC required an HIV focused commercial partner willing to fund its final development, gain the necessary approvals and market the drug globally.



Your Board can confirm that every major global pharmaceutical company with an HIV franchise has been contacted and presented all clinical findings in relation to ATC under confidentiality agreements as part of the process to extract any and all value for ATC during the past 12 months. In the end, none of these parties submitted a term sheet proposal to license ATC for the Board's consideration.

Your Board can also confirm that, under the tenure of the former management team, the search for an international partner for ATC was extensive and included contact with companies other than global pharmaceutical companies, with approaches made to generic pharmaceutical manufacturers, specialty pharmaceutical companies, mid-sized biotechnology companies and regional drug developers.

Since making the announcement on 10 May 2010 to no longer develop ATC, none of the parties contacted have stepped forward to re-engage with Avexa with regard to a potential licensing transaction.

It is important to note that no potential global pharmaceutical partners have indicated they require further clinical data in order to make a decision on whether to pursue a license agreement in relation to ATC. Furthermore, no prospective party has indicated that further interaction with a regulatory body such as the FDA would result in them changing their decision with regard to their interest in ATC. Given that these parties chose not to pursue any kind of commercial relationship with ATC due to the reasons outlined in our 10 May 2010 press release, your Board unanimously recommended against continued capital spend on the program.

Your Board maintains that this decision, given the aforementioned reasons, was taken in the best interests of Shareholders.

UPDATE ON STRATEGIC REVIEW

The Board's major strategic objective is to restore value for Avexa Shareholders. Your Company is fortunate to retain a significant cash asset. First and foremost, we seek to actively preserve this precious asset and we can confirm that the Company expects to have approximately \$23m in net cash as at 30 June 2010.

Your Board continues with its search for the best available merger, acquisition, in-licensing opportunity, or other corporate initiative. The Company has identified a number of prospective opportunities which it continues to assess along with a significant number of approaches from private and public companies, based in Australia and around the world. The designated M&A sub-committee continues to work through all these opportunities and is confident of being able to put forward a transaction in the near-term for all Shareholders to consider.

In relation to Avexa's incumbent programs we can confirm the following:

- the Company has engaged with a number of regional companies in relation to ATC. However, unfortunately as of today no commercially viable agreements capable of execution have been presented to the Board for its consideration;
- in relation to HIV integrase, the Company's discussions with external parties remain ongoing;
- in relation to the anti-bacterial program, the Company's discussions with external parties remain ongoing;
- in relation to the HCV program, due to the early stage of the program and its limited commercial prospects the Company has ceased this program all together; and
- finally, as part of the head-count reduction process, Avexa no longer has the services of Doctors Coates, Cox, Deadman and Rhodes. The Board would like to thank these staff as well as all other redundant discovery, clinical and development staff for all their hard work over the years and wish them well in their future endeavors.

The Board maintains and emphasises its recommendation that all Shareholders vote AGAINST these resolutions at the General Meeting on 6 July 2010 or lodge a proxy form to vote AGAINST these resolutions.

By unanimous authorisation of the Board of Avexa Limited.