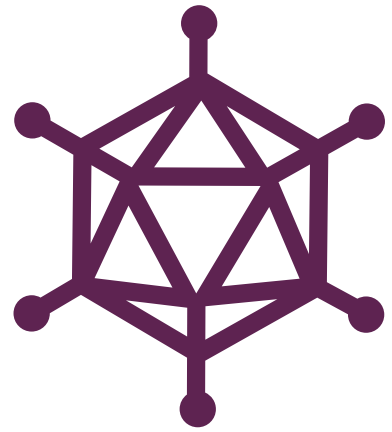




A V E X A

NEWS



Highlights in this Issue:

- Favourable Phase I Cardiac Safety Trial Results
- Positive Result for Avexa's Antibacterial Program in Animal Proof of Concept Studies
- Eighth International Congress on Drug Therapy in HIV
- GBC CEO Conference
- New Website
- Road Shows and Investor Conferences



Chairman and CEO's Letter

Dear Shareholders,

Firstly, we welcome new shareholders to the Avexa register who have received Avexa shares as a result of the special in-specie distribution from CSL as part of the acquisition of Zenyth. To give all existing and new shareholders an opportunity to consolidate or increase their holdings, the Company decided to undertake a Share Purchase Plan which enabled all eligible shareholders to increase their holdings at an attractive price (\$0.20 per share), which was at a discount to the Company's recently traded share prices and with no brokerage. We are pleased to announce that the SPP raised \$9.75 million and we thank those shareholders for their continued support.

Since the last newsletter, the Company has achieved significant progress in a number of discovery projects, and announced positive results to the market for a Cardiac Safety Clinical Trial, which was required to support the clinical development of apricitabine.

Results of a secondary safety study for the administration of apricitabine with tipranavir are expected to be released within the next month. Two sets of positive results were also released for Avexa's anti-bacterial program in animal proof of concept studies. And finally, Avexa has signed a binding term sheet to enter into a discovery and development license agreement with TargetDrug of Shanghai. This CCR5 program allows Avexa to add value to the overall HIV portfolio and therefore to the Company but utilising the existing skills and resources within the Company.

The Phase IIb trial for apricitabine continues, with recruitment expected to be closed by the end of 2006. During the first quarter of 2007, we expect to be in a position to release the initial results of the Phase IIb trial for apricitabine. Should these result be positive we would hope to be in a position to move to initiate Phase III trials by the end of 2007.

With clinical trials and additional early projects progressing, Avexa looks forward to another exciting quarter and positive news flow during 2007.

Therefore on behalf of the staff and management of Avexa, we wish you all a healthy, happy and prosperous festive season and 2007.

Kindest regards,

Dr Hugh Niall
Chairman

Dr Julian Chick
Chief Executive Officer

Favourable Phase I Cardiac Safety Trial Results

Avexa undertook a Phase I cardiac safety study that examined the potential for apricitabine to cause changes in the heart rhythm. This type of cardiac side effect is known to occur with some other drugs and can, in rare cases, have serious consequences. The results showed that apricitabine had no significant adverse effect on cardiac safety, thereby demonstrating a safe cardiac profile.

This study was required by the Food and Drug Administration (FDA) as part of the apricitabine development plan and this favourable Phase I finding is another positive step to allow a much broader

group of patients to be enrolled in the Phase III trials for apricitabine. This Phase I trial was carried out in the USA.

The establishment of adequate cardiac safety for new drugs in development has become an important regulatory requirement prior to Phase III development. Although previous pre-clinical and clinical studies with apricitabine have not shown any evidence of effects on the heart, current guidelines recommend completion of a specific, thorough cardiac safety trial for new drugs in late stage development.

Positive Result for Avexa's Antibacterial Program in Animal Proof of Concept Studies

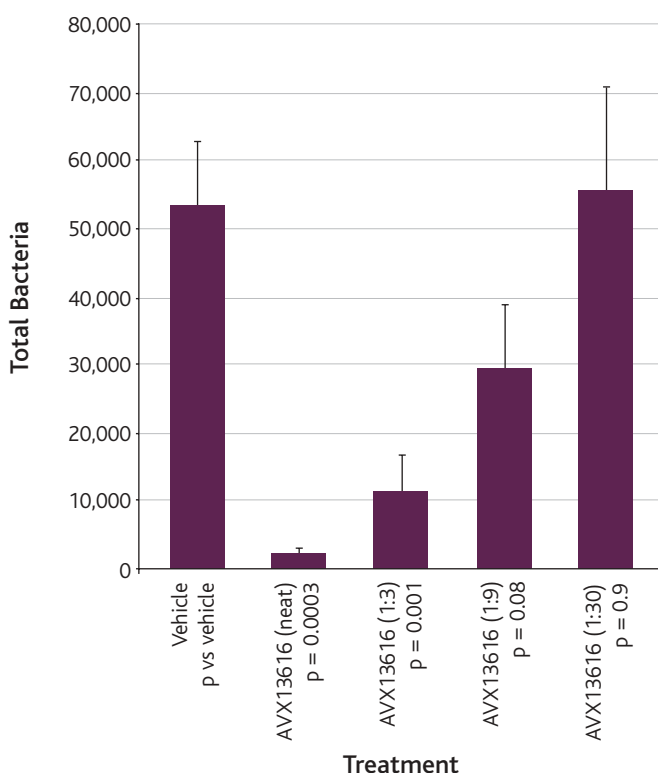
In early November, Avexa announced positive results from animal model proof of concept studies on its lead compound AVX13616 for the treatment of drug-resistant bacterial infections. AVX13616 is a completely new class of synthetic antibiotic with rapid bacterial killing activity. This was followed by further positive data from the program in December which shows that a compound from the same series had shown systemic activity against drug-resistant bacterial infections.

The applications for such antibacterial drugs would encompass a wide range of skin infections including impetigo, infected burn wounds, and catheter related bacterial infections (a significant number of which result in serious bacterial blood infections) as

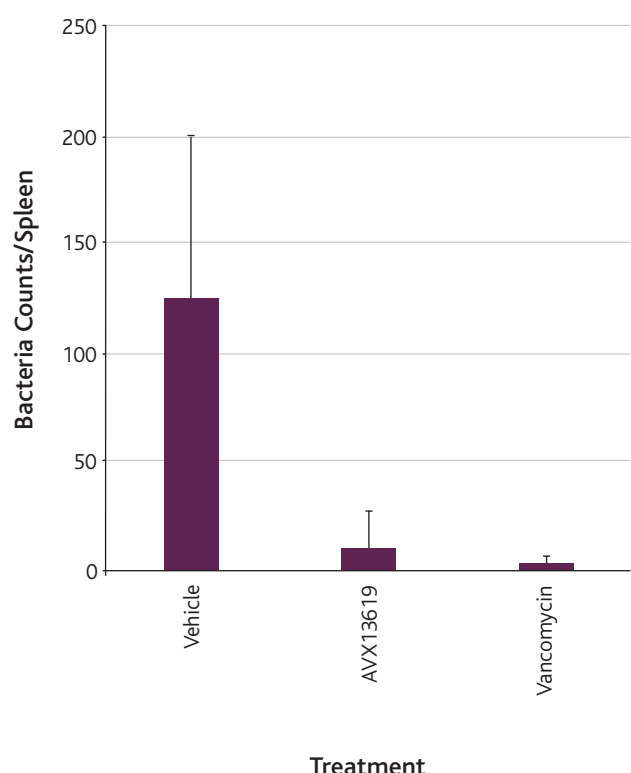
well as blood borne and organ bacterial infections. The National Institutes of Health (NIH) estimate that the annual cost of treating all antibiotic resistant infections in the United States may be as high as \$30 billion.

The fact that several compounds in Avexa's antibacterial program have shown activity against drug-resistant bacterial infections suggests that this program has the potential of becoming a new class of antibacterial agents. A truly new class of novel antibacterial drugs has not been identified to treat drug-resistant bacterial infections for around 20 years. This dearth of novel antibiotics together with the rising incidence of antibiotic resistance illustrates the considerable potential for Avexa's antibacterial program.

Effect of Topical Treatment with AVX13616 on Nasal Bacterial Numbers



Effect of Systemic Treatment with AVX13619 on Spleen Bacterial Numbers





Eighth International Congress on Drug Therapy in HIV Infection, 12-16 November 2006, Glasgow

Held every two years, this conference attracts nearly 3,000 participants involved in drug treatment for HIV infection, many of them physicians who treat HIV-infected patients. Some key themes of the conference were: treatment strategies for naïve and experienced patients; adverse events of current therapies; improving treatment of patients in low income and resource limited countries; drug-drug interactions; and drug resistance.

Several interactive discussions took place which focused on issues such as:

- The best time to start therapy.
- How to regain virological control in patients failing therapy.
- The importance of resistance testing in choosing the best therapy.

A number of posters were also presented, among them a poster describing a mathematical model that has been developed to help analyse and predict the effect of Avexa's apricitabine against HIV infection (Poster P270: Disease state model for Apricitabine in treatment naïve HIV-infected patients). This poster can be viewed on the new Avexa website. This complex mathematical model seeks to use data from previous clinical trials conducted with apricitabine to construct a mathematical model describing both the rate at which HIV replicates and infects cells and the rate at which apricitabine is able to prevent HIV replication. The model

A key theme of the conference was the increasing importance of adverse side effects of many current drugs.

may be useful in simulating what might happen under different scenarios of viral replication and drug administration.

A key theme of the conference was the increasing importance of adverse side effects of many current drugs. As patients are taking HIV medications for many years, side effects such as diarrhoea, nausea, and changes in body shape (wasting or increased fat deposition) have a considerable effect on patients' quality of life, and may lead patients to avoid taking their medication. Several presentations by patients of their own personal experience with current HIV drugs gave a unique insight into the needs of patients.

Some side effects, such as liver and kidney problems and heart disease, are becoming significant health problems in their own right, sometimes leading to death from drug side effects rather than from HIV disease directly. New drugs with fewer side effects are eagerly sought by both patients and physicians alike.

GBC CEO Conference

As previously reported in April 2006, Avexa joined the Global Business Coalition (GBC) on HIV/AIDS, an organisation that coordinates business efforts to deal with the AIDS epidemic. Avexa considers membership of this organisation as being an ideal way to align itself with like-minded businesses seeking solutions to the management and treatment of HIV/AIDS.

In October 2006, Avexa's CEO, Dr Julian Chick attended the European CEO Summit on Business and AIDS which was hosted by GBC. Dr Chick participated in a roundtable discussion on

'Core competencies and HIV/AIDS programs.' Participants discussed their experiences on improving access to treatment through novel initiatives. The discussion also focused on innovative approaches through the business sector's unique skills, including: management, marketing and communications and monitoring and evaluation.

This was an invaluable opportunity for Avexa to share its experiences and to gain first hand exposure to trends in business and government HIV management and financing strategies.

New Website

The Company has recently re-launched its website (www.avexa.com.au). The site has a fresher, cleaner look and is easier to navigate. It has been fully updated and provides access to all Stock Exchange announcements, broker presentations, annual reports and background information on each of the Company's projects. We urge shareholders to check the site periodically and to use it as a valuable resource in understanding Avexa's strategies and the progress of the projects we are undertaking.



Road Shows and Investor Conferences

Over the past three months, senior management has been very active in building Avexa's profile in the investment community. In particular, the Company's Chief Executive Officer, Julian Chick, and Chief Scientific Officer, Jonathan Coates presented to investment bankers, stockbrokers and fund managers in Sydney, Melbourne, Brisbane, Perth and Adelaide and in the United States. Dr Chick also presented to the BIO Partnering Europe Conference in London in October 2006 and to the Wilson HTM Conference in Sydney.

Financials

Cash flow report for the quarter ended 30 September 2006

Under the ASX Listing Rules, Avexa is required to prepare and lodge a quarterly cash flow statement, and the following table is a condensed version of the statement that was lodged in October 2006 for the previous quarter ended 30 September 2006.

	Current quarter \$A'000	Year to date (three months) \$A'000
Payments for:		
Staff costs	(786)	(786)
Advertising and marketing	(128)	(128)
Research and development	(3,098)	(3,098)
Leased assets	(48)	(48)
Laboratory consumables	(141)	(141)
Occupancy	(77)	(77)
Consulting	(36)	(36)
Legal and professional	(85)	(85)
Corporate administration	(29)	(29)
Travel and entertainment	(115)	(115)
Insurance	(180)	(180)
Intellectual property	(8)	(8)
Other working capital	(75)	(75)
Interest and other items of a similar nature received	264	264
Other – GST refunds	118	118
Net operating cash flows	(4,424)	(4,424)
Cash flows related to investing activities		
Physical non-current assets	(14)	(14)
Other – costs of capital raising	(24)	(24)
Net investing cash flows	(38)	(38)
Net decrease in cash held	(4,462)	(4,462)
Cash at beginning of quarter/year to date	20,228	20,228
Cash at end of quarter	15,766	15,766

Timetable for the next 12 months

Quarterly *Avexa News*
Quarterly *Avexa News*

March 2007
June 2007

Annual Report
Quarterly *Avexa News*

September 2007
December 2007



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Editor's Note

We value shareholder feedback.
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