Issue 4 – June 2006
Quarterly News Report to Shareholders

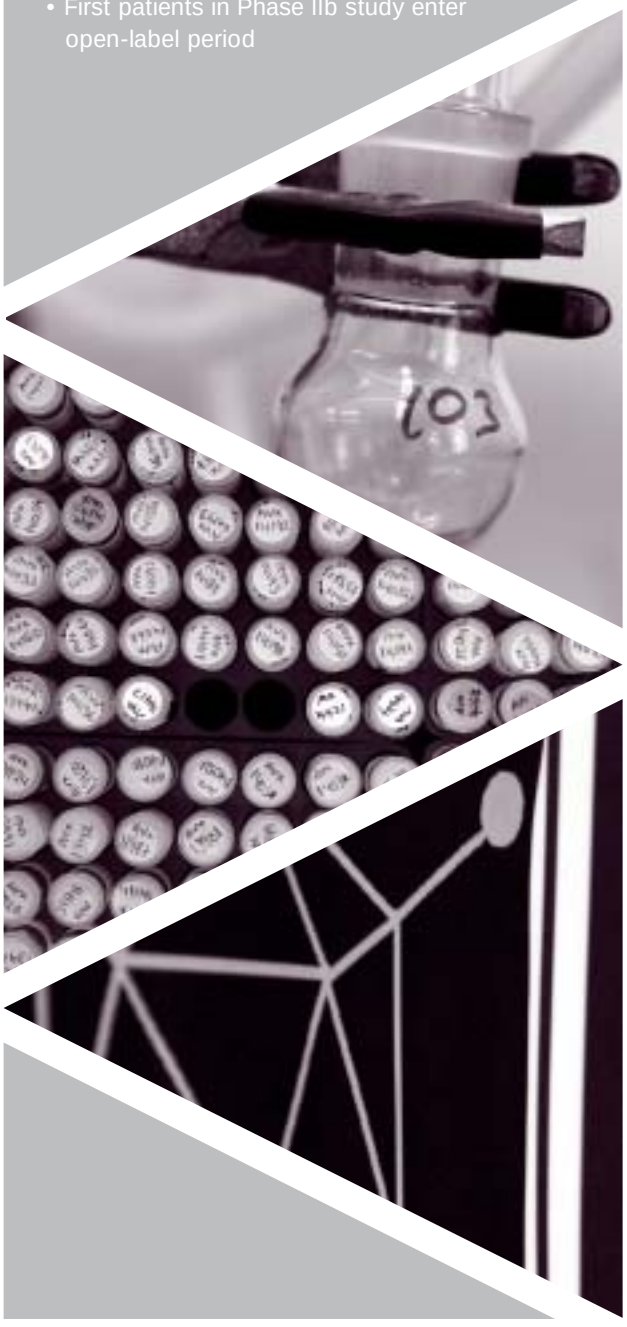
AVEXA

News

Highlights in this Issue:

Clinical trials update

- Avexa looking to conclude recruitment mid-year
- Avexa starts two Phase I studies
- First patients in Phase IIb study enter open-label period



Chairman and CEO's Letter

Dear Shareholders,

It has been another exciting quarter of activity for Avexa. Firstly the Board, management and staff thank you for your continued support, in particular for your strong participation during the latest capital raising. Avexa received a greater than 50 per cent acceptance from existing shareholders, even though major shareholders Zenyth Therapeutics (formally Amrad) and The State Government of Victoria did not take up their entitlement for this capital raising.

The Company continues to progress the recruitment of its Phase IIb clinical trial with the intention of closing recruitment for the trial by mid-year, this year. Avexa is buoyed by the start of the two Phase I studies and the progress of the first patients into the Phase IIb study which are now into the open-label part of the trial and are taking apricitabine as part of their HIV therapy.

With these three clinical trials ongoing and additional early projects progressing, Avexa looks forward to another exciting quarter and to positive news flow coming from these projects during 2006.

Sincerely,

Dr Hugh Niall
Chairman

Dr Julian Chick
Chief Executive Officer

Clinical trial update

As stated previously Avexa is aiming to conclude recruitment for patients into the Phase IIb study mid-year, 2006.

Avexa is pleased to report that the cardiac Phase I trial has started, and the second (tipranavir co-dosing) Phase I trial will start in July. The results of these trials are due in the third quarter 2006.

Avexa is encouraged by the fact that the first patients enrolled into the Phase IIb trial have moved into the open-label period of the study, and thus are taking apricitabine open label.

Avexa joins peers in Global Business Coalition on HIV/AIDS

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. GBC has an expanding network of over 200 international companies involved in its program which it describes, in its publications as follows:

"To accelerate the corporate community's involvement in this important global health crisis, the GBC acts as a central hub for businesses that want to make a difference. GBC's expert teams assist member companies in the design and development of specialised programs that leverage a company's assets, business skills, and networks to tailor a unique response to the HIV/AIDS crisis. It identifies and disseminates models of good business practice, provides technical expertise where and when it's needed most, and it stimulates shared-learning around the globe to encourage greater action and efficacy across the entire international business community."

With offices in Beijing, Paris, Geneva, Johannesburg and headquarters in New York, GBC is considered by Avexa as being an ideal way for Avexa to align itself with like minded businesses seeking solutions to the management and treatment of HIV/AIDS. Avexa will also benefit by having access to the global networks that membership of the GBC provides.

Avexa completes capital raising to prepare for Phase III trials

The Company has successfully completed a placement to overseas investors and a rights issue to new and existing shareholders that raised $14.2 million. The primary use of these funds raised is the ongoing development of apricitabine, (previously known as AVX754).

Use of the funds, as stated in the April 2006 prospectus will be:

- accelerate the preparations for the Phase III trial of apricitabine;
- complete a clinical pharmacology (cardiac) Phase I study;
- complete a Tipranavir co-dosing Phase I study;
- initiate a long term extension study for the Phase IIb trial; and
- provide working capital for the Company.

Apricitabine which is at the forefront of the Company's development pipeline is a new anti-HIV drug which is currently in Phase IIb trials. Following the significant progress of the Phase IIb trial, Avexa has been sufficiently encouraged to commence preparatory activities for the Phase III trials and to speed the progress of its development with the ambition of bringing the product to market in 2009. Although the introduction of antiviral drugs has improved life-expectancy and reduced disease progression, the virus rapidly becomes resistant to these first line drugs. Further, it is estimated that up to 20 per cent of new infections now involve the transmission of resistant virus, meaning new classes of antiviral drugs will provide the only hope of treatment for an increasing number of patients.

The launch of apricitabine will provide a major advance in the treatment of HIV-infected persons, especially for sufferers who have variants of the virus that have proved resistant to existing treatments. Apricitabine is a new drug that provides a novel treatment in combination with other medicines to inhibit drug-resistant HIV infection.

Growing global interest in apricitabine

Interest in apricitabine continues to grow in professional circles on the back of its encouraging progress through Phase IIb trials and as we gear up for Phase III trials. Avexa was invited to present data on apricitabine development at the 19th International Conference on Antiviral Research, which was held recently in San Juan, Puerto Rico and the Company was also invited to present at the 14th International Symposium on HIV and Emerging Infectious Diseases (ISHEID 2006), in June of this year.

The International Conference on Antiviral Research, which is the foremost international gathering of antiviral professionals from both industry and academia, takes place annually and reaches a global audience. Avexa was invited to present on apricitabine in the Clinical Symposium, alongside Gilead, who presented on their new single pill (combining three existing drugs currently used separately) for HIV infection. Interest in apricitabine was high, particularly as it was the only new HIV drug presented.

The science behind apricitabine

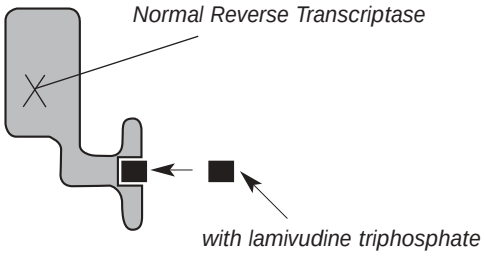
Nucleoside reverse transcriptase inhibitors (NRTIs); how they work and why apricitabine overcomes lamivudine resistance

HIV, in common with every other known virus has to make multiple copies of its genetic material in order to replicate. HIV accomplishes this by hijacking the internal workings of a person's cells. In the case of HIV, the hijacked cells are those of the human immune system. Once taken over by the virus, these cells may die or cease to function properly, and this leads to the disease we commonly know as AIDS.

Outside the cell, HIV has genetic material made up of a complex chemical called RNA (ribonucleic acid), however, inside the infected cell; the viral genetic material exists in a related form called DNA (deoxyribonucleic acid).

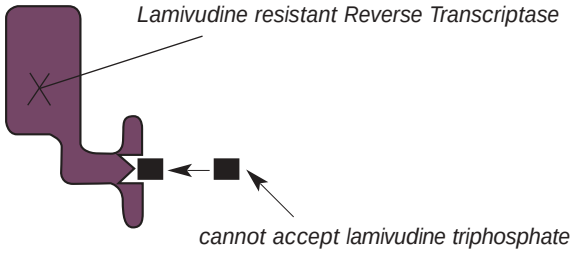
HIV virus changes its RNA to DNA in a process known as reverse transcription.

Reverse transcription is accomplished by the viral enzyme *reverse transcriptase*. The reverse transcriptase hijacks the normal building blocks (the deoxynucleoside triphosphates) that the cell would use to make its own DNA and uses them to make the viral DNA instead. If the reverse transcriptase is inhibited, the virus is unable to replicate and kill the infected immune cells and the progression to AIDS is slowed or stopped.

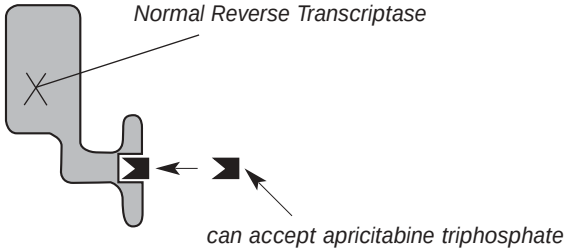


Some of the most successful anti-HIV drugs are inhibitors of HIV reverse transcriptase. The first reverse transcriptase inhibitors were the *nucleoside reverse transcriptase inhibitors* or NRTIs, and these still form the cornerstone of anti-HIV therapy. Avexa's lead drug apricitabine, currently in Phase IIb trials, is a NRTI.

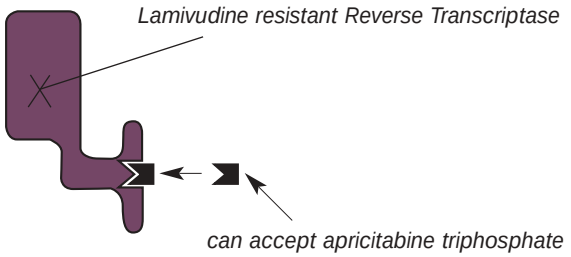
One of the key issues with antiviral drugs is that sooner or later a mutant virus will arise that is resistant to the NRTI. When such resistant virus arises it can lead to the clinical failure of the antiviral drug and the patient must be given an alternative treatment. There are a number of ways a virus can mutate to ignore the antiviral drug. Let's take for example resistance to one of the largest selling anti-HIV NRTI drugs called lamivudine. In this case, the virus changes from having a protein building block called methionine at position 184 to having a valine at that position. Incidentally, this is why the lamivudine resistance mutation is known as the M184V. This change effectively puts a 'lump of protein' into the pocket in reverse transcriptase where the lamivudine triphosphate normally sits to inhibit the enzyme. It is the blocking of lamivudine's entry into the pocket by this 'lump of protein' that makes the reverse transcriptase and therefore the virus resistant to the antiviral effects of lamivudine.



Avexa's lead compound apricitabine is designed to overcome resistance to lamivudine. Apricitabine is a chemical that is sufficiently similar in shape to lamivudine that the apricitabine triphosphate can fit into the same pocket in the reverse transcriptase as lamivudine triphosphate does, and thus inhibit the enzyme.



However, it is sufficiently different in shape that it is not affected by the protein lump that stops lamivudine triphosphate from fitting into the resistant enzyme.



So the apricitabine triphosphate can fit into the pocket of resistant HIV but can also fit into the pocket of the 'wild-type' or normal un-mutated HIV, and inhibit these viruses from replicating. Resistance to some other types of NRTI can occur by a different mechanism, however, apricitabine appears to have the ability to get into the reverse transcriptase pocket of many of these resistant mutants, and inhibit their replication too. It is this breadth of activity against a number of clinically important resistant HIV that makes apricitabine such a potentially useful drug in the fight to overcome drug-resistant HIV.

Competitor HIV drug stopped-owing to side effects

Incyte Corporation (USA) has stopped development of Reverset, an HIV treatment which was a potential competitor to Avexa's apricitabine, owing to significant side effects. Development has been halted owing to many patients experiencing elevated blood lipase levels, which is an indicator of damage to the pancreas. Reverset had previously shown clinical efficacy in patients resistant to lamivudine, and could have been a competitor product to apricitabine if development had continued.

Apricitabine has not shown any evidence of similar side effects during development to date.

Head of Development elected to Antiviral Society Board

Dr Susan Cox, Head of Development, has been elected to the Board of the International Society of Antiviral Research. This internationally known organisation is the foremost Society representing antiviral researchers all over the world. The Society organises conferences and works to promote antiviral research and foster links between scientists in the field. Dr Cox will join Board Members from both other pharmaceutical companies and academic institutions, all dedicated to antiviral research.

Avexa congratulates Dr Cox on her appointment to the Society and the recognition of her work in the antiviral field.

Financials

Cash flow report for the quarter ended 31 March 2006

	Current quarter $A'000	Year to date (nine months) $A'000
Payments for:		
Staff costs	(577)	(1,784)
Advertising and marketing	(42)	(150)
Research and development	(661)	(2,155)
Leased assets	(79)	(212)
Laboratory consumables	(74)	(249)
Occupancy	(74)	(242)
Consulting	(21)	(317)
Legal and professional	(89)	(457)
Corporate administration	(14)	(76)
Travel and entertainment	(107)	(251)
Insurance	-	(144)
Intellectual property	(9)	(40)
Other working capital	(24)	(341)
Interest and other items of a similar nature received	146	533
Other – GST refunds	78	383
Net operating cash flows	(1,547)	(5,502)
Cash flows related to investing activities		
Physical non-current assets	(2)	(137)
Other – costs of capital raising	(11)	(11)
Net investing cash flows	(13)	(148)
Net decrease in cash held	(1,560)	(5,650)
Cash at beginning of quarter/year to date	11,637	15,727
Cash at end of quarter	10,077	10,077

Timetable for the next 12 months

Annual Report	September 2006	Quarterly *Avexa News*	March 2007
Quarterly *Avexa News*	December 2006	Quarterly *Avexa News*	June 2007

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Editor's Note

We value shareholder feedback.
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