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Chairman and CEO's Letter

Dear Shareholders,

Since our last newsletter, global equity and debt markets have continued to display considerable volatility and there are increasing signs of economic stress in major Western economies. In these uncertain times, we have retained a clear focus on the key activities required to deliver value to our shareholders:

- continuing our core apricitabine (ATC) program on its path to delivering commercial benefits to Avexa;
- progressing our exciting integrase (anti-HIV) and antibiotic programs towards the commencement of clinical trials; and
- leveraging our drug discovery capabilities to generate valuable new intellectual property.

Since starting in March, Avexa's Phase III clinical trial for ATC has been progressing well, with 45 centres having been opened across North America, Israel, Europe, Australia and South America and another 20 sites in these locations due to be initiated in the coming weeks.

A new and exciting development for Avexa is the partnership we have formed with TargetDrug on a discovery program for the treatment of Hepatitis C Virus (HCV). Another devastating infectious disease which affects 180 million people around the world, HCV is also a leading cause of chronic liver disease. This program leads on from the success that Avexa has enjoyed in our HIV-integrase and antibiotic programs, and plays directly to our strength in drug discovery.

Avexa's involvement in high-profile HIV and AIDS forums continues with our participation in the XVII International HIV Drug Resistance Workshop. The abstract we submitted was accepted as a poster presentation, and describes the genotype results of the AVX-201 Phase IIb study of ATC to Week 24. The results show clearly that ATC does not select for drug-resistance over this period as announced previously. The workshop has gained a reputation over the last 16 years as being the premier meeting on HIV drug resistance and is renowned for the presentation of quality data.

From a Board perspective, we were saddened to farewell as Chairman of the Board Dr Hugh Niall, who announced his retirement during the quarter. Dr Niall made an outstanding contribution to Avexa's growth during a very exciting phase of the Company's development and we wish him well during his retirement. As part of the ongoing process of maintaining a Board of Directors with a broad range of relevant skills, we were very pleased to welcome to the Board a new Non-Executive Director, Mr Nathan Drona.

As we embark upon another quarter, we wish to thank you for your continued support of Avexa through a tumultuous period for the global economy. Despite the challenges of this economic climate, we remain focused on steering our programs toward fruition, and the introduction of our new HCV program underscores our positive outlook toward Avexa's continued success.

Mr Stephen Cooper
Chairman

Dr Julian Chick
Chief Executive Officer

Avexa's Chairman, Dr Hugh Niall Retires

On 25 March 2008, Avexa announced the retirement of Chairman of the Board, Dr Hugh Niall. Non-Executive Director, Dr Niall, 70, who joined the Avexa Board in September 2004, has made the decision to reduce his work commitments so that he can spend more time with his family.

Mr Stephen Cooper, who has assumed the role of Chairman during the search for a new Board member, has been a Director of Avexa since November 2005. With a 15 year career in investment banking, he is a Director of Grant Samuel, a leading independent Australian advisory firm, and has wide ranging experience in mergers and acquisitions, corporate restructuring and capital raisings.

Avexa Appoints US-Based Non-Executive Director

Avexa has appointed Mr Nathan Drona as a Non-Executive Director of the Company. Mr Drona is an experienced international investment banker in the life sciences industry and has successfully advised numerous companies in the US, Europe, and Australia in mergers and acquisitions strategy. Most recently, he was Managing Director for Challiss, an independent M&A advisory firm based in New York.

Mr Drona has a strong capital markets background, expertise in licensing and M&A, and key existing relationships in the institutional investment community that will be of significant benefit to the Board.

Our staff writer interviewed Mr Drona shortly after his appointment to find out what his thoughts are on the Company:

Avexa: What got you interested in Avexa?

ND: I have been following the Company since its inception and am impressed with the likelihood for success of ATC. Phase IIb studies for ATC were extremely positive and indicate that the compound addresses important and clinically relevant issues for HIV therapies, including acquired drug resistance and harmful side effects. Another interesting point to note from a global perspective is that this is the only HIV therapy currently in Phase III trial – and no HIV therapy has ever failed Phase III trials after successful Phase II trials.

Avexa: What made you want to join the Board?

ND: Avexa is at a unique stage as a company – it's at a point where despite a significant amount of clinical risk being mitigated in the ATC program that reduced risk isn't being realised in the share price by the capital markets. We have several options for unlocking this value within the Company and based on my background it seemed like a natural fit.

Avexa: What do you think you can add to the Board?

ND: Biotech is a competitive and global industry – our competitors are international, our target markets are international, and some of our shareholders are global institutional funds. With my background in investment banking, particularly with respect to licensing and M&A, I hope to bring a global perspective into Avexa's strategic decision making.

Avexa: As an Australian company, how do you think Avexa fares at a global level?

ND: Avexa's successful financing event in 2007 was led by international institutional funds. For the most part, these shareholders are sophisticated funds that are solely focused on healthcare and biotech. They routinely evaluate investment opportunities measured against competing ideas in all geographies. Their interest in Avexa is probably the most significant validating event of our global competitiveness as a company, and our potential going forward.

Hepatitis C Virus Collaboration with TargetDrug

In the first week of June, Avexa announced a collaborative Hepatitis C Virus (HCV) program with TargetDrug. The focus will be on the development of novel lead inhibitors of HCV replication. Hepatitis C is an infectious disease that is a leading cause of chronic liver disease resulting in liver inflammation, cirrhosis and liver cancer. Of the 180 million people globally that are treated for their HCV infection, only half are benefiting from current therapy, so unmet medical needs are very high.

The disease is blood-borne; the virus spreads within its host by replicating its RNA and using this to make the components that form new viruses. Avexa intends to target this replication process to identify inhibitors. The introduction of this discovery program into Avexa's portfolio is the result of the successful nomination of lead compounds from both the HIV-integrase and the antibiotic

programs for progression into IND-enabling studies. It's a clear opportunity to put Avexa's proven experience in pure drug discovery into play.

Globally, 100 million of the people who are suffering from HCV have a chronic infection. It is those individuals who are at particular risk of developing liver cirrhosis or liver cancer. According to the Center for Disease Control approximately 2.7 million people in the United States are chronically infected. Studies on progression of disease in chronically infected people indicate that 70 per cent of these chronically infected patients develop some form of chronic liver disease, including, in some cases, cirrhosis or liver cancer. Datamonitor estimates the HCV market will grow to \$4.4 billion in 2010 and \$8.8 billion in 2015.



Hepatitis C Virus – An Overview

Hepatitis C is one of five currently identified hepatitis viruses – Hepatitis A, B, C, D, and E – all of which can attack and damage the liver. Widely viewed as one of the most serious of the five, the Hepatitis C Virus (HCV) is spread primarily through contact with infected blood. Presently, there is no vaccine or other means of preventing Hepatitis C infection. HCV exists in many different forms, called genotypes, confounding researchers in their quest to develop a vaccine effective for all variations. Also, HCV mutates frequently within infected patients, so even if an effective vaccine is developed, it could be rendered useless by a new strain of mutant virus.

Once HCV is contracted, treatment or the body's defences can cure a small portion of patients. In most others, however, HCV's frequent mutations allow it to evade the immune system, defeating attempts to develop a cure. Some treatments are available, but they don't work for all patients. The current standard of care is a combination of interferon and the antiviral drug ribavirin. This combination therapy appears to suppress blood levels of HCV more effectively than a first or repeat course of interferon alone. This success is unfortunately accompanied by side effects. Patients can suffer from extreme fatigue, flu-like side effects such as fever, chills and body aches and they can also suffer bouts of depression, rendering them unable to work or attend school. Ribavirin can cause anaemia, and interferon is associated with both psychosis and suicidal behaviour, though the latter occurs in just one to two percent of patients. Ribavirin also presents significant potential risks for pregnant women, including possible foetal death or malformations.

Interferon monotherapy is generally reserved to treat patients in whom ribavirin is contraindicated. Ribavirin, when used alone, does not work. Interferon is a genetically engineered biological drug. Hepatitis C patients must inject themselves with interferon, usually three times a week. In about 25 per cent of patients, the drug has a pronounced effect, reducing HCV to very low levels in the blood. However, if the drug is ineffective after three months, doctors probably will discontinue it. Currently, chronic Hepatitis C patients who do not respond to therapy have few options. In many, cirrhosis or other damage will eventually cause the liver to stop functioning. In these cases, a liver transplant is the only recourse. However, even new livers often become infected with the virus.

Avexa's goal is to develop a treatment that will be quite different from the current standard of care. Our aim is to make it orally bio-available in the form of a tablet or capsule, which is more convenient than the injectable (weekly) interferon component of the current standard of care. We will also be aiming to create a once a day medicine, thus improving compliance and ease of use for patients. The ribavirin component in the current standard of care is oral twice daily.

In addition, Avexa is working towards a compound that has a considerably better safety profile than that of ribavirin or interferon. During the development process, we will be monitoring the progress of other drugs in development, together with their resistance and side effect profiles and the clinical antiviral effects and adjusting our preferred profile matrix accordingly. Avexa's objective is to ensure that our medicine will have a place in combination with other treatments and that it will be superior where possible.

Avexa to Present a Poster at the HIV Drug Resistance Workshop

Avexa has submitted an abstract to the XVII International HIV Drug Resistance Workshop, to be held on 10-14 June in Sitges, Spain. Entitled 'Genotypic Analysis of Patients Enrolled in Study AVX-201 and Treated with Apricitabine for 24 Weeks', the abstract has been accepted as a poster which will be presented at the workshop.

The abstract and poster describe the genotype results of the AVX-201 study to Week 24. The aim was to conduct genotypic analysis at different time points throughout the study to search for any development of resistance to apricitabine. There were few changes in genotype in patients treated with apricitabine and no evidence of development of resistance to apricitabine was observed over the 24 week treatment period.

The International HIV Drug Resistance Workshop has gained a reputation over the last 16 years as being the premier meeting on HIV drug resistance. Leading laboratory and clinical scientists present their latest research at this workshop, which often results in innovative approaches to antiretroviral therapy.

The workshop is a closed meeting, with a limited attendance of 250 delegates comprising physicians, clinicians, scientists and clinical researchers in the HIV resistance arena. It's well renowned for the quality of the data presented and the depth of the scientific interaction and debate.

A copy of the poster presentation is available on the Company's website at www.avexa.com.au

Financials

Avexa Limited cash flow report for the quarter ended 31 March 2008

	Current quarter \$A'000
Operating cash flows	
Payments for:	
Staff costs	(4,214)
Advertising and marketing	(124)
Research and development	(16,031)
Leased assets	(229)
Laboratory consumables	(371)
Occupancy	(883)
Consulting	(359)
Legal and professional	(138)
Corporate administration	(213)
Travel and entertainment	(673)
Insurance	(303)
Intellectual property	(553)
Other working capital	(260)
Interest and other items of a similar nature received	3,742
Other - GST refunds	472
- Property sub-rental proceeds	258
- Commercial ready grant	654
Net operating cash flows	(19,225)
Cash flows related to investing and financing activities:	
Physical non-current assets	(742)
Other – non current assets – intangible marketing licence	(3,478)
Net process from issue of shares	41
Net investing and financing cash flows	(4,179)
Net decrease in cash held	(23,404)
Cash at beginning of quarter/year to date	76,873
Cash at end of quarter	53,469

Timetable for the next 12 months

Annual Report	September 2008	Quarterly Avexa News	March 2009
Quarterly Avexa News	December 2008	Quarterly Avexa News	June 2009



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Editor's Note

We value shareholder feedback.
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