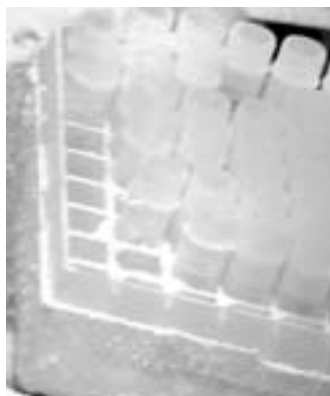


AVEXA

Highlights in this Issue:

- Capital Raising and Rights Issue
- Phase IIb Success
- Avexa Acquires ATC Rights
- Combination Therapy with Tipranavir Exhibits Positive Results
- Manufacturing Agreement with Novasep



Chairman and CEO's Letter

Dear Shareholders,

On 19 March 2007, the Company announced the highly anticipated results of the Phase IIb trial for apricitabine (ATC). The positive results exceeded our targets which is exciting and promising for the Company. The Company now intends to move toward Phase III trials with a view to launching a product in 2010. The recent placement to US institutions and the rights issue to shareholders that is now under way will raise the bulk of the funds required to undertake these trials.

Whilst the success of the Phase IIb trials is an enormous achievement for the Company, the risks and capital required to get this far should not be forgotten. Relatively few Australian biotech companies have achieved commercial success and we look forward to advancing down this road over the next few years. The results achieved in the Phase IIb trial to date give us confidence for the Company to complete a capital raising that will enable Avexa to progress ATC into Phase III trials while retaining full control of the program. Avexa intends to present the recent Phase I and Phase IIb 21 day results at a major HIV conference in Sydney in July.

Over the past six months, we have been moving forward in anticipation of positive Phase IIb results. A number of ancillary trials have been successfully undertaken; we have concluded an agreement with the French company Groupe Novasep to undertake manufacturing; and we acquired the North American rights to ATC from Shire plc. North American rights will complement the rights to the rest of the world that we already own and provide us with maximum flexibility in developing commercialisation strategies.

The Phase III trials will involve about 1,200 patients in two separate trials run in parallel and over the next few months considerable work will be undertaken to ensure that the sites for the trials can be initiated in the fourth quarter of 2007. Preparation is also underway for a small pediatric trial to determine the utility of ATC in children.

Rights Issue

This is only available for existing shareholders at Record Date of 29 March 2007 with a closing date of 19 April 2007.

Whilst our principal focus has been on ATC, the Company continues to progress its other programs and we expect to move another of these into the clinical trial phase over the next year.

Avexa continues to appreciate the support of its shareholders and we encourage you to review the prospectus for the current rights issue. The renounceable rights issue gives shareholders an opportunity to invest further in Avexa at an attractive issue price, while providing shareholders with flexibility for their investment decision.

The Company looks forward to the future with confidence. The highly successful Phase IIb results and the current capital raising have substantially de-risked the Company and changed its investment dynamics. With the ATC program heading towards Phase III and commercialisation, and substantial funds in hand to conduct the Phase III trials for ATC, Avexa has an excellent platform for further growth.

Kindest regards,

Dr Hugh Niall
Chairman

Dr Julian Chick
Chief Executive Officer

Capital Raising and Rights Issue

Avexa has completed a \$15 million placement to US investors and will raise a further \$60 million through a fully underwritten rights issue at \$0.53 per share.

The rights offer is to existing shareholders only and will close on the 19th of April, with the rights final day of trading on the Australian Stock Exchange the 12th of April. The stock code for the Avexa rights is AVXR.

Avexa shareholders will be issued rights to subscribe for new shares at the same price (\$0.53) as under the placement. The issue will be renounceable in order to give existing shareholders the maximum flexibility in regard to their entitlement and is fully underwritten by ABN AMRO Morgans Corporate Limited.

The rights issue and placement are expected to provide the Company with the bulk of the funds required to complete Phase III trials for Avexa's anti-HIV drug, ATC, over the next two and a half years.

Avexa is currently covered by several stock analysts including Linda Ong of Bell Potter who values the stock at \$1.35 in the research report dated 21 March 2007 and Dr Graeme Wald of Wilson HTM Investment Group who values it at \$1.54 in the research report dated 21 March 2007. The current values are based on post rights capital raising.

Key dates

Record Date: The date for determining entitlements of Shareholders to participate in the Offer (at 7pm AEST)	29 March 2007
Prospectus sent to Shareholders: Anticipated despatch of Prospectus and Entitlement and Acceptance Forms	03 April 2007
Rights Trading ceases	12 April 2007
Closing Date: The last day for receipt of Applications (at 5pm AEST)	19 April 2007
Despatch Date: Anticipated despatch of holding statements for New Shares	27 April 2007
First Trading Date: Trading of New Shares commences	30 April 2007

Phase IIb Success

On 19 March 2007, Avexa announced the highly successful results from its Phase IIb trial for apricitabine (ATC). ATC is Avexa's novel nucleoside reverse transcriptase inhibitor (NRTI) being developed for the treatment of HIV infection in patients with drug-resistant HIV.

The results exceeded the Phase IIb trial primary endpoint by a substantial margin. Patients who received ATC achieved on average a reduction of greater than $0.8 \log_{10}$ (85 per cent) in the level of HIV in the blood after 21 days treatment compared to a reduction of less than $0.03 \log_{10}$ in patients treated with 3TC. Nine patients achieved a greater than $1.5 \log_{10}$ (97 per cent) reduction after 21 days, with three patients achieving a reduction of over $2.0 \log_{10}$ (99 per cent).

Remarkably, one patient achieved a decrease in the amount of virus of more than $2.5 \log_{10}$ (99.7 per cent) after 21 days on ATC. Patients with the highest degree of drug resistance still achieved a significant benefit from treatment with ATC. The demonstration of activity superior to 3TC in this study indicates that ATC will be an effective antiviral drug for the treatment of many drug resistant patients, including even those most highly resistant.

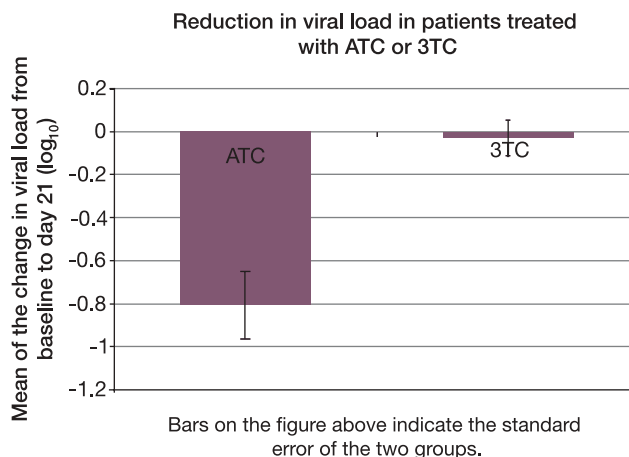
Over the 21 days of the trial ATC demonstrated an excellent safety profile. Moreover, over this period no virus resistant to ATC was detected.

"This is a fantastic result for Avexa" stated CEO Dr Julian Chick in a release to the ASX on 19 March 2007. "The positive result allows us to continue to progress ATC into Phase III trials and towards commercialisation. The team at Avexa has done a great job and these excellent results show that their hard work has paid off."

"Overall the results of Avexa's Phase IIb clinical trial demonstrate that ATC is a clinically effective antiviral drug that can significantly reduce the replication of the virus in patients infected with drug-resistant HIV," said Dr Chick.

The Phase IIb trial compared the effectiveness of ATC in reducing the viral load of patients with drug-resistant HIV with the effectiveness of lamivudine (3TC), a leading NRTI in widespread use. A total of 47 patients completed 21 days of dosing. Of these 17 patients received 600 mg doses of ATC, 16 received 800 mg doses of ATC and the control group of 14 patients were treated with 3TC.

Efficacy data





Avexa Acquires ATC Rights in North America and Signs Manufacturing Agreement

Avexa recently acquired the rights to produce and supply apricitabine (ATC) in North America (Canada, USA) from Shire plc, a leading specialty pharmaceutical company, for an upfront payment of US \$10 million (AUD \$12.9 million) plus an additional 8 million escrowed shares in Avexa. The licence deal also includes undisclosed milestones and royalties.

North America is the single largest market for HIV treatments and represents around 50 per cent of the global HIV drugs sales market. Avexa now has the worldwide rights to market ATC, which substantially expands the expected scope of Avexa's business. The licence deal was achieved using funds raised in Avexa's recent shareholder purchase plan (SPP).

Combination Therapy with Tipranavir Exhibit Positive Results

In January this year Avexa showed in a Phase I trial that ATC could be used in combination with tipranavir for the treatment of HIV. The results demonstrated the ability of ATC to be co-dosed with tipranavir without any significant reduction in plasma levels of ATC. This Phase I study was required by the FDA as part of the ATC development plan.

HIV patients are commonly treated with a combination of drugs comprising several different types of drug from different drug classes. Not all HIV drugs can be safely and effectively used together. Previous pre-clinical data indicated that ATC is well suited for combination with other HIV drugs, and this trial supports this belief. The ability of ATC to be combined with other HIV medications is an important advantage which helps to simplify treatment choices, for both physicians and patients alike.

Tipranavir is a recently approved protease inhibitor that is used to treat HIV-infected patients in combination with drugs from other classes such as NRTIs. Previously published data has shown

HIV patients are commonly treated with a combination of drugs comprising several different types of drug from different drug classes. Not all HIV drugs can be safely and effectively used together.

that tipranavir significantly reduces the plasma levels of some other NRTIs (such as AZT and abacavir), which can lead to reduced antiviral activity for the combination of drugs. The study was therefore undertaken to establish whether tipranavir would have a similar effect on ATC.

Manufacturing Agreement with Novasep

In February 2007, Avexa announced the signing of a manufacturing agreement for the production of ATC, with the French company, Groupe Novasep. The agreement covers the continued production, process optimisation, and further scale-up of the active

pharmaceutical ingredient (API) of ATC based upon the Varicol® continuous chromatography system for use in Phase III clinical trials and in preparation for the commercial launch of the product.

Financials

Avexa Limited cash flow report for the quarter ended 31 December 2006

	Current quarter (31/12/06) \$A'000	Year to date (6 months) \$A'000
Payments for:		
Staff costs	(772)	(1,558)
Advertising and marketing	(92)	(220)
Research and development	(3,138)	(6,236)
Leased assets	(52)	(100)
Laboratory consumables	(108)	(249)
Occupancy	(76)	(153)
Consulting	(336)	(372)
Legal and professional	(166)	(251)
Corporate administration	(30)	(59)
Travel and entertainment	(122)	(237)
Insurance	-	(180)
Intellectual property	(158)	(166)
Other working capital	(88)	(163)
Interest and other items of a similar nature received	225	489
Other – GST refunds	73	191
Net operating cash flows	(4,840)	(9,264)
Cash flows related to investing and financing activities:		
Physical non-current assets	(104)	(118)
Other – costs of capital raising	9,563	9,539
Net investing and financing cash flows	9,459	9,421
Net increase in capital held	4,619	157
Cash at beginning of quarter/year	15,766	20,228
Cash at end of quarter	20,385	20,385

Timetable for the next 12 months

Quarterly *Avexa News*
Annual Report

June 2007
September 2007

Quarterly *Avexa News*
Quarterly *Avexa News*

December 2007
March 2008



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Editor's Note

We value shareholder feedback.
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