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- New Appointments
- US \$65 Million Licence Deal with Valevia

Chairman's Letter

Dear Shareholders,

In my last formal communication with you, in July this year, I provided you with an introduction to the new Avexa Board and I shared with you the new Board's vision and plans for Avexa.

Since then several key things have happened at your Company which I provide information about in this newsletter.

I reaffirm our commitment to shareholders that your Company will continue to have an ongoing focus on drug discovery and development. In particular we will implement the Board's strategy in light of the findings of the independent review to seek regulatory authority advice on the path forward for apricitabine.

The Board and management of Avexa will work diligently to optimise the potential value of the Company's assets, to seek to identify an HIV Integrase preclinical candidate, to license our programs at the optimal times and to leverage the potential value of the Company's cash reserves.

On 18 November we held our Annual General Meeting. I had the opportunity to outline both what we have achieved during the past year and what we intend to achieve in the year to come. I was happy to have the opportunity to meet with many of you face-to-face and reassure you of our commitment to return value to both the Company and to shareholders.

During the AGM I informed shareholders that Avexa has completed all the tasks required to be in a position to request a meeting with US Food and Drug Administration (FDA), including a submission of the analysed and collated

Phase II/III data on our anti-HIV drug apricitabine (ATC) amounting to more than 17,000 pages.

Since the AGM we have been informed that the FDA has granted us a meeting. This meeting will take place in the first quarter of 2011. Needless to say this is a very important meeting for Avexa and for ATC as it will allow us to discuss with the FDA the data we have already gained as well as explore possible paths forward for the drug candidate.

The AGM was also a good opportunity for me to dispel any misunderstandings about ATC. I was at pains to point out that there remains a developing medical need for a novel and safe Nucleoside Reverse Transcriptase Inhibitor (NRTI).

There is a strong belief that our drug has many positives including: it can be formulated with other agents as fixed dose combinations; the twice-a-day dose is appropriate for second line therapy; and it is active against drug-resistant HIV as well as wild-type HIV. In addition, ATC has an excellent safety profile.

We thank you for your continued support.

Yours sincerely,

Joe Bains
Chairman

Independent Expert's Evaluation

In September your Board announced that it had engaged The Bioadvisory Group Pty Ltd to undertake an independent review of the Company's programs. The Bioadvisory Group is a corporate advisory firm that specialises in biotechnology commercialisation. The review was led by The Bioadvisory Group's Managing Director John Grew, who has more than 30 years experience in technology commercialisation and providing advice on operational improvement, market analysis and strategic reviews for companies in the life sciences sector.

It is recommended that the HIV Integrase program continue for a further 12 months to identify a preclinical candidate.

The findings of the independent expert's evaluation can be summarised as follows:

- Hepatitis C Virus (HCV) program – no further spend recommended.
- Antibiotic program – recommended pursuing a licensing arrangement with a company with expertise in the antibiotic field.
- Apricitabine (ATC) program – approach US Food and Drug Administration (FDA) with new trial design, then approach partners assuming a positive response from FDA. If partners provide a positive response then proceed to Phase III trials. If partners are not positive, then do not proceed with ATC program unless support from a charitable organisation.
- HIV Integrase program – recommended that the program continue for a further 12 months to identify a preclinical candidate.

Investment in Allied Medical Limited

On 11 November 2010 your Board announced that it had agreed to make a strategic investment in Allied Medical Limited, an unlisted public medical device and biotechnology company.

Allied Medical's major shareholder is Andrew Forrest, Executive Director of Perth-based iron ore mining company Fortescue Metals Group Limited. Allied Medical is a medical technologies group with a major interest in Coridon Pty Ltd, a vaccines-focused research and development company started by Professor Ian Frazer. Funds raised from Avexa's investment in Allied Medical will be used to pursue the Coridon technology.

Avexa will pay Allied Medical a total of \$1.5 million in two tranches, which will give us up to a 24 per cent stake in the company. The first tranche, \$750,000, was paid immediately, and gave Avexa a 14 per cent share of Allied Medical. The second tranche, which is conditional on Allied Medical proceeding to an ASX listing, will increase Avexa's stake to a potential 24 per cent.

Avexa will have the right to appoint one Director to the Allied Medical Board which currently comprises three Directors.



Licence Deal with Shanghai Institute of Organic Chemistry

On 14 July your Board announced that Avexa had entered into a licence agreement with the Shanghai Institute of Organic Chemistry (SIOC) to develop one of Avexa's HIV integrase inhibitor series. Under the terms and conditions of the licence SIOC will be responsible for all future development costs for the program in China and will pay Avexa 50 per cent of any net commercialisation revenues. Avexa retains all development and marketing rights for the program outside the China region.

This series of molecules has shown a high level of potency similar to the existing HIV integrase inhibitors on the market or in development. The synthesis of this series of molecules is relatively simple and provides opportunities in the Chinese market. Avexa is determined to realise the value and opportunities from its early programmes for the benefit of shareholders. We are confident that this agreement will generate the best possible returns.

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New Appointments

Singapore-based Allan Tan has joined the Avexa Board as a Non-Executive Director. Mr Tan is a partner in the Singapore law firm Colin Ng and Partners. Since 2008 he has been a director of Adventus Holdings Limited, a listed Singapore company with interests in electronics, telecommunications and mineral resources. Mr Tan is a member of both the Singapore Academy of Law and the Law Society of Singapore.

During November Stephen Kerr, Avexa's Chief Financial Officer and Company Secretary, resigned from the Company. On 1 December Lee Mitchell joined the Company as Company Secretary. Magda Klapakis, the Company's Finance Manager, took on all financial duties. The Board thanked Stephen for his valuable contribution during his time at Avexa Limited.

US \$65 Million Licence Deal with Valevia

On 18 November your Board announced that it has entered into a licence agreement with private Swiss drug development company Valevia Pharmaceuticals GmbH which could yield revenues of up to US \$65 million in milestone payments and royalties.

Under the terms and conditions of the agreement Valevia will fund all future development of Avexa's preclinical antibacterial drug program while Avexa will retain control of managing the intellectual property.

The licence covers the entire Avexa antibacterial portfolio. Avexa is entitled to receive up to US \$65 million plus royalties upon achievement of significant clinical development and commercial milestones for the lead program. In the event other compounds covered by Avexa's intellectual property are developed by Valevia, Avexa would be entitled to additional milestone and royalty payments.

Avexa controls the intellectual property covering a series of novel compounds which are active against a range of microorganisms, including strains that are resistant to the antibiotics vancomycin, methicillin and mupirocin.

Avexa controls the intellectual property covering a series of novel compounds...

Avexa's lead molecule AVX13616 has been selected for pre-clinical testing. Studies of AVX13616 have shown it possesses good antibacterial activity against various strains of *Clostridium difficile* and against mupirocin-resistant strains of *Staphylococcus aureus*. This compound and others are the result of a long standing collaboration with the University of Wollongong, NSW.

Valevia has extensive experience and understanding of developing antibacterial drugs. Resistance to antibiotics has become a significant clinical issue worldwide and is a phenomenon that has continued to increase over the years, especially in hospitals. Any development of drugs that are active against a range of microorganisms resistant to antibiotics would be a landmark achievement.



Timetable for the next 12 months

Quarterly Avexa News
Quarterly Avexa News

March 2011
June 2011

Annual Report
Quarterly Avexa News

September 2011
December 2011



A V E X A

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Editor's Note

We value shareholder feedback.
Your comments can be emailed to:
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