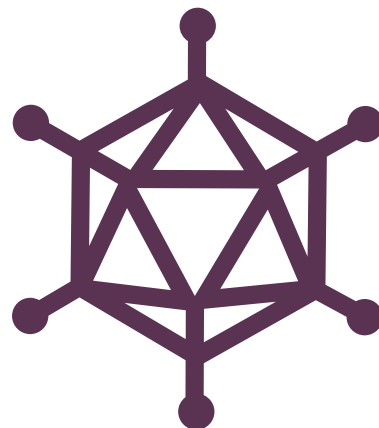




AVEXA

NEWS



#### Highlights in the Issue:

- Recruitment for the First Component of the ATC Phase III Trial Completed
- Avexa's Antibacterial Program – Activity Against *Clostridium difficile*
- Avexa Presents Poster at the 2008 ICAAC/IDSA Conference
- Avexa Presents Data at Ninth International Congress on Drug Therapy in HIV Infection



## Chairman and CEO's Letter

Dear Shareholders,

December is the month when many people and companies review the events of the year that's almost over and finalise their plans for the year that's approaching. Even though 2008 will be marked for many as a year of great uncertainty, strategic planning has helped Avexa to remain stable and focused on the key activities that will best deliver value to our shareholders. Since our last quarterly newsletter, Avexa's Annual General Meeting was held in Melbourne, giving shareholders an opportunity to be updated on these key activities. For any shareholders who were unable to attend, we encourage you to review the presentation, which is available on the Avexa website: [www.avexa.com.au](http://www.avexa.com.au)

Recruitment for the first component of the Phase III trial of apricitabine (ATC) has now been successfully completed. The aim of the trial is to investigate if it is possible to reduce HIV-1 viral replication in HIV-1-infected patients who have failed treatment with lamivudine or emtricitabine by including ATC in their new treatment regimen. Results from this component of the study are expected in the second quarter of 2009. This is a key milestone on the path to commercialisation of ATC.

Also since our last newsletter, Avexa presented at the Ninth International Congress on Drug Therapy in HIV Infection, held 9-13 November in Glasgow. The presentation was titled '48-Week Data from Study AVX-201 – A Randomised Phase IIb Study of Apricitabine in Treatment-Experienced Patients with M184V and NRTI Resistance'.

Avexa presented an abstract at another high-profile medical forum – the 2008 Interscience Conference on Antimicrobial Agents and Chemotherapy/Infectious Diseases Society of America, held in Washington. The abstract described results from Avexa's antibacterial program, in which candidate AVX13616 showed potent antibacterial activity against a range of microorganisms, including methicillin- and vancomycin-resistant staphylococci. AVX13616 is being developed for topical indications and/or wound infection/catheter-related infections.

Severe bacterial infections that are resistant to current antibacterial drugs, including vancomycin and methicillin, are becoming more frequent. During Australia's first National Summit on antibiotic resistance, in 2001, the emergence of antibiotic-resistant bacteria was identified as having significant repercussions for public health worldwide. Infectious diseases that were once easily cured with antibiotics are now gaining the upper hand as antibiotic-resistant strains of bacteria challenge conventional treatment.

In assessing the potential use of AVX13616, its activity against various strains of *Clostridium difficile* has been investigated. Vancomycin and metronidazole are typically used to treat *C. difficile* infection, however, these drugs are not always effective. AVX13616 showed good antibacterial activity against all *C. difficile* strains tested, which indicates that it may be effective against strains resistant to other antibiotics. The development of antibiotics represents one of the major advances in medicine last century. Now, control of antibiotic resistance is one of the greatest challenges facing medical microbiology in this century. Avexa's antibiotic program seeks to develop new compounds that meet this challenge head on, addressing a significant unmet medical need.

With 2008 now drawing to a close, we'd like to thank all our shareholders for your support during the year, and offer you our best wishes for a happy and peaceful December and a prosperous 2009. We at Avexa are looking forward to sharing more positive news about our achievements in the year to come, and to reaching more milestones along the path towards commercialisation for each of our programs.

Warmest regards of the season,

Nathan Drona  
Chairman

Dr Julian Chick  
Chief Executive Officer



## Recruitment for the First Component of the ATC Phase III Trial Completed

Recruitment of the first 160 patients for the Phase III trial of ATC – for the initial two-dose component of the trial – has been completed. Patients eligible for this clinical trial are those who are failing their current treatment regimen with the nucleoside reverse transcriptase inhibitors (NRTIs) lamivudine or emtricitabine and therefore have limited remaining treatment options for drugs of this class, of which ATC is a member. The aim of the trial is to investigate if it is possible to reduce HIV-1 viral replication in HIV-1-infected patients who have failed treatment with lamivudine or emtricitabine by including ATC in their new treatment regimen.

The Phase III trial is being conducted in over 130 specialist HIV centres in 15 countries. The countries participating in the study, to date, are Argentina, Australia, Belgium, Canada, France, Germany,

Guatemala, Israel, Italy, Peru, Puerto Rico, South Africa, Thailand, the United Kingdom and the United States. Avexa would like to express its gratitude to all of the patients in these countries who have undergone screening for this trial and to the patients currently enrolled in the study.

The aim of this first component of the study is to determine which of the two doses of ATC will be selected for the remainder of the study. This dose decision is expected to be made in the second quarter of 2009.

This is another value-creating step for ATC and Avexa as the company continues to develop ATC.

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## Avexa's Antibacterial Program – Activity Against *Clostridium difficile*

Severe bacterial infections that are resistant to current antibacterial drugs, including vancomycin and methicillin, are becoming more frequent. As a part of Avexa's antibacterial program, a series of novel compounds have been generated and assessed as potential antibacterial drugs, with a lead molecule selected for pre-clinical testing (AVX13616).

As a part of assessing the potential use of AVX13616 and its analogues as antibacterial agents, their activity against various strains of *Clostridium difficile* has been investigated. Most cases of *C. difficile* infection occur in people taking antibiotics – eradication of the normal bacteria in the colon by the antibiotics allows overgrowth of *C. difficile*. This overgrowth is harmful because the *C. difficile* bacteria release toxins (toxins A and B) that can cause diarrhoea, which is often severe and accompanied by colitis (intestinal inflammation). Vancomycin and the fluoroquinolone antibiotic metronidazole are typically used to treat *C. difficile* infection, however, difficulty in treating this infection has been observed of late, including resistance to metronidazole and the need to use higher doses of vancomycin or more prolonged periods of treatment.

Recent outbreaks of a highly virulent strain of *C. difficile* (called the ribotype 027 strain), which produces more severe diarrhoea and colitis than the usual strains, have been reported in the United

States, Canada and Europe. This strain produces more toxin A and B than the usual strains and also encodes an additional toxin known as binary toxin. In addition, this strain of *C. difficile* is resistant to fluoroquinolone antibiotics. The increasing prevalence of these types of strains indicates that there is a need for new drugs to treat *C. difficile* infection, in particular, agents that are active against strains of *C. difficile* that are resistant to other antibiotics.

The activity of AVX13616 and analogues against five isolates of *C. difficile* was evaluated. These compounds showed good antibacterial activity against all *C. difficile* strains tested, which included the ribotype 027 strain described above; the ribotype 014 strain, which is the most common ribotype in Australia; and a strain known to be resistant to several antibiotics. These results indicate that these novel antibacterial agents may potentially be useful in the treatment of *C. difficile* infection, including against strains of *C. difficile* that are resistant to other antibiotics.

“These positive results indicate a broader application for Avexa's antibacterial program and therefore potentially greater commercial outcome”, stated CSO Dr Jonathan Coates. Avexa owns the intellectual property around not just the lead compound, but a whole series of compounds in this class of potentially new and exciting antibacterials.



## Avexa Presents Poster at the 2008 ICAAC/IDSA conference

Avexa presented a poster titled 'Broad spectrum antibacterial activity of novel compounds with activity against vancomycin- and methicillin-resistant strains' at the 2008 ICAAC/IDSA (Interscience Conference on Antimicrobial Agents and Chemotherapy/Infectious Diseases Society of America) conference. The poster received much interest during the conference, which was held on 25-28 October in Washington, DC, United States.

The poster described results from Avexa's antibacterial program. Avexa's lead antibacterial candidate AVX13616 showed rapid and potent antibacterial activity against a range of microorganisms, including methicillin-resistant staphylococci (MRSA) and vancomycin-resistant staphylococci (VRSA). Resistance to vancomycin and other antibiotics is a significant problem because of the limited

number of agents that effectively treat antibiotic-resistant pathogens. In addition, data were presented showing that a single application of AVX13616 was as effective as the standard treatment mupirocin administered twice a day for five days in a mouse model of MRSA infection.

AVX13616 is suitable for topical application and is being developed for topical indications including eradicating bacteria in the nose (the most common source of infection) and/or wound infection/catheter-related infections.

A copy of the poster presented at ICAAC is available on the Company's website at [www.avexa.com.au](http://www.avexa.com.au)

## Avexa Presents Data at Ninth International Congress on Drug Therapy in HIV Infection

The Ninth International Congress on Drug Therapy in HIV Infection is a major HIV meeting and provides a forum for the assessment of new drug treatments and therapeutic strategies. Data from the AVX-201 study were accepted as an oral presentation with a supporting poster presentation. Titled '48-Week Data from Study AVX-201 – A Randomised Phase IIb Study of Apricitabine in Treatment-Experienced Patients with M184V and NRTI Resistance', the presentation was part of the Hot Topics and Late Breakers sessions of the conference, which was held on 9-13 November 2008 in Glasgow, United Kingdom. The presentation was one of only five chosen for oral presentation out of hundreds submitted, and the only presentation that described a new drug in development.

Presented at the conference were the final 48-week results of the Phase IIb clinical trial of ATC in treatment-experienced HIV-1-infected patients, which was conducted in Australia and Argentina. The majority of patients in the two groups who received ATC for 48 weeks had achieved undetectable viral loads at week 48. This decrease in viral load was accompanied by sustained increases in CD4 cell counts, suggesting that ATC treatment can reverse the decline in CD4 cell count that is associated with HIV infection. The CD4 cell count increased by more than 250 cells per microlitre on average in these two treatment groups.

Patients who initially received treatment with lamivudine and then switched to ATC at week 24 of the study showed improvements in both viral load and CD4 cell count at week 48. This suggests that patients who do not achieve undetectable viral loads while on lamivudine may benefit from switching to ATC treatment.

Patients who initially received treatment with lamivudine and then switched to ATC at week 24 of the study showed improvements in both viral load and CD4 cell count at week 48.

ATC had an excellent safety profile over the 48-week study period, which was similar to that of lamivudine. In addition, there was no evidence of development of resistance to ATC over the 48-week treatment period. This is significant as development of resistance to one or more drugs in the HIV treatment regimen is an important cause of treatment failure.

The oral and poster presentations are available on the Company's website at [www.avexa.com.au](http://www.avexa.com.au)

During the Glasgow conference, a meeting was held with key investigators participating in the Phase III clinical trial of ATC who were attending the conference. The meeting was held to discuss the progress of the Phase III trial and was very productive, resulting in positive feedback from the investigators about their experience with ATC and the potential role of ATC in treatment-experienced HIV-1-infected patients.

# Financials

## Avexa Limited cash flow report for the quarter ended 30 September 2008

	Current quarter \$A'000
<b>Operating cash flows</b>	
Payments for:	
Staff costs	(1,641)
Advertising and marketing	(49)
Research and development	(8,602)
Leased assets	(46)
Laboratory consumables	(121)
Occupancy	(288)
Consulting	(45)
Legal and professional	(101)
Corporate administration	(50)
Travel and entertainment	(157)
Insurance	(160)
Intellectual property	(157)
Other working capital	(181)
Interest and other items of a similar nature received	765
Other - GST refunds	195
- Property sub-rental proceeds	126
- Commercial ready grant	182
<b>Net operating cash flows</b>	<b>(10,330)</b>
<b>Cash flows related to investing and financing activities:</b>	
Physical non-current assets	(61)
Other – proceeds from issues of shares, options, etc. net of raising costs	-
<b>Net investing and financing cash flows</b>	<b>(61)</b>
<b>Net decrease in cash held</b>	<b>(10,391)</b>
Cash at 1 July 2008 beginning of quarter	43,411
<b>Cash at 30 September 2008 end of quarter</b>	<b>33,020</b>

## Timetable for the next 12 months

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



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### Editor's Note

We value shareholder feedback.  
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