



11 May 2010

Avexa Chairman Letter Addresses Closure of ATC and Request for General Meeting

Dear Shareholders,

As most of you would now be aware, the Board of Avexa has resolved to cease any further development of its lead HIV program, ATC, following the unsuccessful conclusion of partnering discussions with global pharmaceutical companies.

On behalf of the Board and Senior Management of Avexa, I would like to express my sincere disappointment that we were not able to secure a global licensing deal with a major pharmaceutical company for ATC. I have spoken to a number of you over the past 48 hours and certainly appreciate the shareholder frustration. Please bear in mind that ATC's failure did not occur in the clinic. Development milestones were consistently met in a timely manner and trial results posted solid data around safety and efficacy. In the end, the challenge came down to the relationship between asset development timelines and the fluid nature of the treatment landscape. As new combination therapies entered the market, in the view of our potential global pharmaceutical partners, the value of ATC diminished. Although Avexa was engaged with every relevant party in the HIV market, the Company was unable to monetize ATC and it became appropriate to close the program.

As stated in yesterday's release (Avexa Closes Apricitabine Program, 10 May 2010 – see over the page) the company has taken decisive action to reduce costs and is now acutely focused on facilitating a strategic review to identify a solution that will translate into a positive outcome for shareholders.

Prior to our announcement on ATC, this past Friday on 7 May 2010 at 5:00PM, whilst the Company's stock was in a trading halt, we received a notice under section 249D of the Corporations Act requesting the convening of a general meeting of the Company. The notice requested that resolutions be put seeking my removal as a director and Chairman of the Company and the appointment of Mr Steven Crowley and Mr Bruce Hewett as directors of the Company. Avexa is currently assessing the notice received and will inform shareholders of future action once it has completed that assessment.

In closing, I wanted to again express the Board's disappointment with this unfortunate outcome for our lead program. Our top priority moving forward is to preserve capital while the Board completes its strategic review, with a focus on restoring value for our shareholders.

Yours sincerely,

Nathan Drona
Chairman



**AVEXA CLOSSES APRICITABINE (ATC) PROGRAM
Announces CEO Resignation, Headcount Reduction and Plan to Explore Strategic Alternatives**

Melbourne, Australia, 10 May 2010. The Board of Avexa Limited (ASX:AVX) has resolved to cease any further development of its lead HIV program, ATC, following the unsuccessful conclusion of partnering discussions with global pharmaceutical companies.

This announcement follows the 2 October 2009 closure of ATC's Phase III clinical trial. Since then, detailed results from this study at 24 weeks were provided to interested parties as part of a formal process designed to secure a licensing transaction. On Thursday, 6 May 2010, the last party involved in this process notified Avexa that it did not intend to submit a term sheet. Consequently, the Board of Avexa has resolved to cease all activities for this program. Avexa has commenced a strategic review of its remaining programs and intends to consider suitable merger, acquisition, in-licensing opportunities and other corporate initiatives.

The Company has taken immediate action to reduce costs and will continue to actively preserve capital, including taking further action to significantly reduce overhead in combination with the strategic review process. Additionally, Julian Chick has resigned from the Board, effective immediately, and will leave his position as the Chief Executive Officer on 31 May, 2010.

"The Board wishes to extend its appreciation to Julian for his tireless efforts to create shareholder value via the development of ATC. The asset's clinical milestone timelines were consistently achieved and the trial results, both in terms of safety and efficacy, were excellent. Unfortunately, for ATC, the compound's successful development did not translate into a commercial deal to partner the program with a global pharma company and, as a result, the program is no longer viable. We are grateful for Julian's contributions to the company as CEO since the company's inception." said Nathan Drona, Avexa's Chairman.

The Board is of the view that Avexa has exhausted all possible avenues to complete a global licensing transaction for ATC. However, it intends to continue discussions with smaller regionally focused companies who have expressed an interest in a regional licensing transaction for ATC. The probability of this type of transaction being executed remains uncertain and if completed would be unlikely to generate a meaningful return on the capital invested in the ATC program to date.

SUMMARY OF LICENSING PROCESS

Over the past two years, Avexa has been in active discussions with potential partners. However, in early March 2010, the company initiated the final stage of the partnering process via a full review of the data set from the Phase III study, which incorporated a detailed presentation of the results by Avexa scientists. The primary objective of the process was to secure a license agreement for ATC with one of several global pharmaceutical companies who had previously been in a dialogue with the Company. Unfortunately, this partnering process did not result in a partner for ATC.

Some of the key reasons why potential partners involved did not proceed to the term sheet stage included:

- the time and capital required to secure regulatory approval for ATC in key markets may be too large of a commitment to allow for an attractive investment in light of the other drugs in the marketplace and other potential factors such as perceived risks around US market exclusivity;
- the required dosage for ATC may be too high when used in combination with certain existing approved HIV drugs, making it difficult to be combined into one pill with some other HIV drugs; and
- an inability to determine the level of activity of ATC when used in combination with a number of new active drugs on the market (which mask the level of activity).

STRATEGIC REVIEW

Accordingly, the Board of Avexa wishes to advise shareholders that:

- Avexa is closing the ATC program effective immediately, and does not intend to invest further capital in the development of ATC or seek regulatory approval for the drug;
- a significant headcount reduction in all areas of the Company, including discovery, clinical, and executive staff has commenced;
- the Board has commenced a strategic review of all of Avexa's remaining programs (including HIV integrase and HCV);
- the Board has appointed an advisor to assist in conducting the strategic review and to consider:
 - potential regional or other type of licensing transaction in relation to ATC;
 - the future of the other remaining programs in Avexa's portfolio; and
 - merger, acquisition, in-licensing opportunities, and other corporate initiatives.

In the interim, the Company will be actively preserving capital and taking further action to significantly reduce overhead in combination with the strategic review process. Avexa had a net cash position of approximately \$26.6m as at 31 March 2010 and expects to have approximately \$23m in net cash as at 30 June 2010 after allowing for net current liabilities and expected redundancy and restructuring costs.

"The Board and Senior Management of Avexa have worked diligently over the past two years with the explicit objective of securing a global licensing deal with a global pharmaceutical company for ATC. We are extremely disappointed that this key objective was not achieved. Our top priority moving forward is to preserve capital while completing our strategic review with the primary focus of uncovering a transaction that will be value accretive for our shareholders. We look forward to updating the market in the near-term with our progress" continued Nathan Drona, Chairman of Avexa.

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