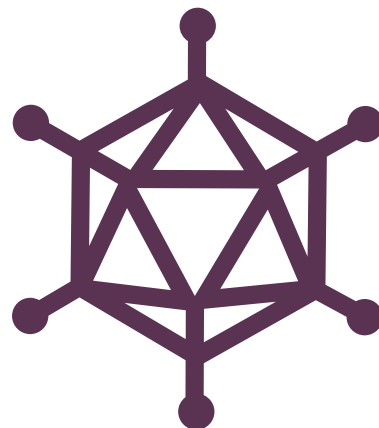




AVEXA

NEWS



Highlights in the Issue:

- Avexa's Rights Issue Currently Opens
- Avexa's Lead Program – the Anti-HIV Drug Apricitabine
- Avexa's Early Phase Programs
- Avexa Holds Scientific Advisory Board Meeting

Rights Issue Closes 27 April

Chairman and CEO's Letter

Dear Shareholders,

As many of you may know already, on 25 March 2009, Avexa announced the Company's 2009 rights issue, in which eligible shareholders will be able to participate. This rights issue follows significant accomplishments for Avexa's lead program, apricitabine (ATC), as it moves toward its final stages of development. The reasons for the capital raising are to:

- strengthen Avexa's balance sheet through the provision of additional working capital;
- relieve market perception of the capital risk within Avexa;
- continue development of the Company's lead program – ATC – past the week 16 Phase III endpoint;
- provide leverage in partnering discussions; and
- progress the wider Avexa portfolio of projects to value creating milestones.

Particularly encouraging is the progress of ATC, our lead compound for the treatment of drug-resistant HIV infections, for which we recently announced very positive 96 week data, as well as the passing of the 16 week time point for the last patient enrolled in the initial two-dose phase of ATC's Phase III trial. This significant event triggers the start of the data analysis for the week 16 results, which Avexa is expecting to announce in the second quarter of 2009. This is a key milestone for both value generation and discussions with some potential licensing partners.

Also during March, Avexa announced that the proposed merger with Progen would not go ahead. While this is a disappointing outcome, our overall strategy of developing high value drugs remains unchanged, and Avexa's clinical programs continue to deliver solid results. While we believed the proposed merger

with Progen would have been beneficial for Avexa shareholders, it is important to note that Avexa's assets were largely expected to drive the combined entity going forward.

A recent independent report assessed the current value of ATC. The highlights of that assessment were:

- ATC alone is valued at between \$151.4 million to \$225.8 million.
- The potential peak sales are estimated at greater than US\$580 million.

Not only are we confident of the value and prospects for ATC, we remain excited about the balance of Avexa's earlier stage anti-infective drug portfolio, which is featured in detail later in this newsletter. Currently, these programs continue to be funded by supporting grants and we have had significant interest in earlier partnering of these assets.

In regards to the rights issue, an offer document and formal offer and application form will be mailed to all eligible shareholders on or around Tuesday 7 April 2009, and we invite all eligible shareholders to participate. We believe in ATC and the potential for the program and you have our assurance that we will continue to aggressively explore every opportunity to unlock the value within Avexa's product portfolio, which is clearly not yet reflected in our share price.

Yours sincerely,

Dr Julian Chick
Chief Executive Officer

Mr Nathan Drona
Chairman

Avexa's Lead Program – the Anti-HIV Drug Apricitabine

Apricitabine (ATC) is a novel nucleoside analogue for the treatment of people with HIV infection who have failed their first-line therapy. While it is a nucleoside analogue and therefore a member of the oldest class of anti-HIV drugs, we believe the properties of ATC are unique and differentiate this compound from all others on the market and in development.

There are over 30 million people living with HIV globally, with two million dying from AIDS every year. Approximately 1.5 million people infected with HIV live in North America and Western Europe, with 300,000-400,000 of these in the USA receiving treatment. It is a sad fact that nearly a third of patients infected with HIV in the USA remain undiagnosed. At least three million people worldwide receive anti-HIV therapy, approximately 10 per cent of whom have been infected with drug-resistant virus. The emergence of drug-resistant HIV is the predominant reason for people failing their first-line therapy. One of the most common mutations found in such patients is called M184V and it is this mutation that makes the virus resistant to 3TC/lamivudine or FTC/emtricitabine.

ATC is very effective in the treatment of HIV which is resistant to 3TC or FTC and also HIV resistant to AZT/zidovudine, another commonly used antiviral in first-line therapy. This is the primary reason why ATC represents such a valuable asset in the treatment of patients who have failed their first-line therapy and need a safe and effective treatment to move to as a second-line therapy. Avexa has demonstrated clinically that ATC is very safe and well tolerated and is very active against drug-resistant virus in patients who have failed first-, second- and even third-line therapies. Furthermore, in those treated patients, the CD4 cell count – and therefore their immune system – was markedly improved, with CD4 increases as good as, if not better than, the other newly approved anti-HIV antivirals.

Another facet of ATC that underscores its unique properties is the observation that no signature resistance mutation to ATC has been identified after 21 days of functional monotherapy or even 24 and 48 weeks of therapy with ATC in an optimised background. It is these properties of great safety, potent activity with a beneficial effect on the immune system and lack of resistance that make ATC a unique asset for Avexa and the treatment of HIV-infected individuals.

Another beneficial feature of ATC is that it has no adverse interactions with other antivirals (other than 3TC/FTC) and is therefore perfectly placed to be given in combination with any other marketed anti-HIV agent that a practising physician would wish to dose with ATC. The ability of ATC to be easily made into fixed-dose combinations makes it a very commercially attractive asset for partners in the HIV drug franchise.

Given the unique qualities of ATC and the clear unmet medical need for a treatment for patients resistant to their first-line therapies, ATC is ideally placed to fill a real gap in second-line therapy and beyond.

ATC under a granted IND has received fast-track approval from the US FDA, thus indicating their belief that ATC meets an unmet medical need. In six Phase I trials, including single and repeat dose studies, food and gender effect studies and drug interaction studies, ATC was shown to be extremely safe and well tolerated up to high doses. Two Phase II trials have been completed successfully, the first in drug-naïve patients, which showed ATC to be the most active in its class. The second trial, conducted in hard-to-treat drug-resistant patients, also showed ATC to be very safe and well tolerated, as well as very active with a beneficial effect on the patients' immune system, and there was no selection of virus resistant to ATC, even after 96 weeks of treatment.

HIV therapy uses a cocktail of drugs. In simple terms, two nucleoside analogues (NRTIs) are usually given in combination with another drug or drugs which are not members of the NRTI class. The rationale behind this is that the NRTIs provide a backbone of antiviral activity to which the HIV finds it difficult to become resistant. The other drug provides extreme potency but without the NRTI backbone could select for resistance very quickly. Thus, the cocktail simultaneously provides potency and a barrier to resistance. ATC, being a very safe and active NRTI with potency against HIV resistant to first-line NRTIs, is an ideal component for second-line and beyond therapeutic regimens.

For all of these reasons, ATC is a highly attractive NRTI for the treatment of HIV in second-line therapy and beyond. Given its safety, activity and barrier to resistance and also its ability to be co-formulated with other antivirals, it is a unique commercial asset and potentially a cornerstone product for Avexa.

The facts that support ATC's commercial potential:

ATC addresses the massive HIV market

- 33 million people are infected with HIV worldwide.
- 1.5 million people in North America and Western Europe are living with HIV (2008).
- Three million people on antiretroviral therapy in 2007 vs 300,000 in 2003.
- Treatment-resistant HIV is a consistent problem and ensures the ongoing need for new drugs – 10 per cent of patients are already drug resistant in frontline therapy (i.e. they have 'inherited' drug resistance from the person they contracted the disease from).
- An estimated 60 per cent of treatment-experienced patients show signs of resistance.

ATC's pedigree and progress

- Avexa's Chief Scientific Officer is Dr Jonathan Coates, a former Project Leader for multiple antiviral programs at GSK.

- While at GSK, Dr Coates was the co-inventor of the antiviral drug 3TC, one of the most successful HIV treatments globally with over US\$8 billion in sales to date.
- ATC's Investigational New Drug Application has been granted fast-track approval by the US FDA.
- Six Phase I trials, Phase IIa and IIb study completed, Phase III underway.
- World-class scientific advisory board that is supportive of ATC development and sees a valuable role for it in the treatment of HIV infection.

ATC's value drivers

- Safe and effective treatment.
- Defined market to treat NRTI resistance.
- No interaction with other anti-HIV drugs, therefore easily made into a fixed-dose combination.
- High probability of Phase III and 'to market' success.
- Clear unmet medical need.
- Potential for licensing deals and possible combination therapies.



Avexa's Early Phase Programs

Following behind ATC, Avexa's lead program, there are a number of commercially and scientifically exciting programs which as yet are not in the clinic.

Avexa's integrase program uses our knowledge of the HIV integrase enzyme, which is essential for the replication of HIV. With the regulatory approval of Merck's integrase inhibitor Isentress (raltegravir), this enzyme has been clinically validated as a target. Avexa has taken advantage of the information generated from the clinical use of Isentress to redefine Avexa's desired properties in a new generation anti-HIV integrase drug. Avexa has the goal of identifying a once-a-day treatment (Isentress is twice-a-day) for HIV infection that is active against HIV and also HIV resistant to Isentress itself. Over the last year since the approval of Isentress, Avexa has successfully identified several series of compounds with biological properties that encourage us to believe we are well on the way to nominating a clinical candidate with these desired properties of once-a-day dosing and potent activity, including against Isentress-resistant virus.

Hepatitis C virus (HCV) is a virus which is currently not well treated. This is because the standard of care is not universally effective, either because of how patients react to it or because of the HCV genotype with which they were infected. There is a very significant unmet medical need for the treatment of the disease caused by HCV. Avexa has set the goal of finding an orally bioavailable, once-a-day drug for the treatment of HCV. This program has

been underway for less than one year and is in collaboration with TargetDrug of Shanghai. Even though it is at an early stage, we have already set up the screens and assays required to identify hits and we have screened a number of libraries from diverse sources. We are pleased to say that we have already identified a number of promising hits which our medicinal chemists are optimising using chemical structure/activity based design and computer-aided modelling. This is a very attractive area commercially as early deals with partners can be done. We have been encouraged by our success so far and will continue to progress these leads and commercialise them.

Avexa's antibacterial program is focussed on identifying compounds with antibacterial activity against antibiotic-resistant microorganisms. Because of the limited number of agents that effectively treat antibiotic-resistant microorganisms, resistance to vancomycin and other antibiotics is a significant medical problem. A series of novel compounds have been generated and shown to have potent antibacterial activity against a range of microorganisms, including strains resistant to the antibiotics vancomycin and methicillin. The project has progressed to the point of selecting a lead molecule (AVX13616) for pre-clinical testing. AVX13616 has been found to be as active as the standard of care antibiotic, mupirocin, in a mouse nasal decolonisation model, but demonstrates a vastly superior dosing regime. Based on these and other results, AVX13616 is being developed for topical indications including nasal decolonisation and/or wound infection/catheter-related infections.

Avexa Holds Scientific Advisory Board Meeting

The Scientific Advisory Board for Avexa's anti-HIV drug ATC consists of medical investigators considered experts in the field of HIV research in Australia, Europe, the United States and South America. The SAB provides objective feedback and guidance on the development of ATC, drawn from their extensive experience in the treatment of HIV disease. With the members of the SAB being in Montreal for CROI 2009, Avexa took the opportunity to hold a meeting with them before the conference. The purpose of this meeting was for Avexa to update the SAB with the latest data

on ATC and for the SAB members to discuss the data and provide suggestions on the best approach for the continuing development of ATC. The SAB meeting in Montreal was very productive, with valuable discussion of the Phase II clinical results, the ongoing Phase III study and the rationale behind the development path of ATC. Overall, the SAB members were positive about the progress that has been made with ATC to date, and see a valuable role for it in the treatment of HIV infection.

Financials

Interim income statement for the half year ended 31 December 2008

	31 December 2008 \$'000	31 December 2007 \$'000
Other revenues from ordinary activities	1,794	3,051
Revenue	1,794	3,051
Contract research and development costs	(16,485)	(14,276)
Raw materials and consumables used	(237)	(234)
Personnel expenses excluding share-based payment expense	(3,600)	(2,906)
Share-based payment expense	(325)	(275)
Occupancy costs	(628)	(715)
Depreciation	(137)	(65)
Asset management expenses	(106)	(128)
Legal and professional services	(215)	(320)
Travel	(224)	(422)
Insurance	(114)	(109)
Intellectual property	(224)	(431)
Merger proposal expenses	(172)	-
Other expenses	(381)	(486)
Loss before income tax expense	(21,054)	(17,316)
Income tax expense	-	-
Loss for the period	(21,054)	(17,316)

Timetable for the next 12 months

Quarterly *Avexa News*
Annual Report

June 2009
September 2009

Quarterly *Avexa News*
Quarterly *Avexa News*

December 2009
March 2010



A V E X A

Avexa Limited
ABN 53 108 150 750
© Avexa Limited

576 Swan Street Richmond
Victoria 3121 Australia
Telephone 61 3 9208 4300
Facsimile 61 3 9208 4004
www.avexa.com.au

Editor's Note

We value shareholder feedback.
Your comments can be emailed to:
avexa@avexa.com.au

Disclaimer This newsletter contains general information only and is not a recommendation. Avexa Limited and its officers do not guarantee its accuracy and have not considered your particular objectives, financial situation or needs. Avexa Limited and its officers disclaim all liability to the fullest extent possible for any loss or other consequence which may arise from you relying on the information in this publication.