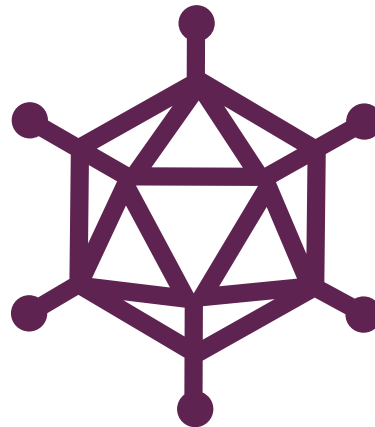




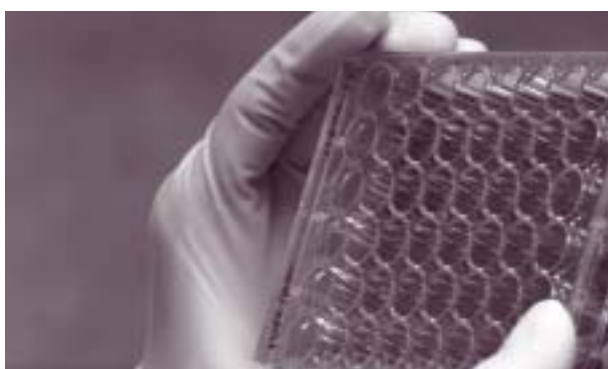
A V E X A

NEWS



Highlights in this Issue:

- Progress with AVX-201 Phase IIb trial
- HIV Integrase project update
- New name for AVX754 – apricitabine
- Apricitabine active against resistant HIV according to latest lab studies



Chairman and CEO's Letter

Welcome to Avexa's latest shareholder newsletter, which is part of our ongoing commitment to keep shareholders informed of Avexa's news.

After a prosperous 2005, Avexa has continued to build momentum in early 2006. Most importantly, our Phase IIb HIV trial continues apace, aided by the \$11.5 million we raised early last year.

Avexa has had significant news releases since our last newsletter. The first was our announcement in early February regarding the signing of an exclusive licence agreement with UK-based drug discovery and development company MNLpharma. This agreement allows us to develop and commercialise a number of HIV Integrase inhibitors identified from MNLpharma's PhytoPure library and will help build on Avexa's considerable expertise with HIV Integrase. Avexa maintains there is great promise in the development of a drug which inhibits the Integrase enzyme. Currently there are no marketed drugs that target this enzyme, although it has attracted great interest and research across the industry.

The second announcement was an update on the Phase IIb clinical trial. In this, we stated that the first patient enrolled in the trial had completed six months. This, and the fact that no adverse effects have been observed to date, provides Avexa with great encouragement (see article on the following page) for the progress of AVX754.

Notably, Avexa was mentioned in the respected *Bioshares* magazine, which praised the Company for its ability to "move quickly to secure new investment opportunities." Please see the full story later in this newsletter.

Avexa looks forward to another exciting year as the projects continue to progress and your Company continues to grow.

Best wishes

Dr Hugh Niall
Chairman

Dr Julian Chick
Chief Executive Officer

Progress with AVX-201 Phase IIb trial

In March 2006, Avexa reported to the Australian Stock Exchange progress with the ongoing AVX-201 Phase IIb trial and our intention to ramp up preparations for the Phase III trial. The AVX-201 Phase IIb trial is a blinded study of the efficacy of AVX754 in the treatment of drug-resistant HIV infection. The endpoint of the trial is the reduction in the amount of virus in the blood after three weeks of treatment. Avexa is aiming to complete enrolment by mid-year.

Importantly, no patient enrolled into the trial to date has experienced any significant adverse effects attributed to the study treatment. In addition, no subjects have been withdrawn from the study, and the first subject has completed six months of dosing. Although recruitment of patients into the Phase IIb trial has been slower than originally anticipated, Avexa has implemented a number of

actions to speed enrolment and boost the progress of the clinical trial. By the first quarter of this year we nearly doubled the number of clinical trial sites involved in the trial and we had expanded the trial into Argentina to speed up subject recruitment.

Buoyed by the progress and information from the trial to date, Avexa has announced its intention to ramp up its preparations towards Phase III development of AVX754 following completion of the Phase IIb trial. Avexa is preparing to increase a number of activities – including scale up of manufacturing capabilities, production of sufficient Phase III study materials, site identification and regulatory activities prior to initiating Phase III trials. All these activities will go to ensuring that there is as smooth transition from Phase IIb into Phase III as possible.

HIV Integrase Project

Avexa is continuing work on its HIV Integrase project. The Integrase enzyme is a new target in the HIV treatment area. There are currently no drugs on the market that target the Integrase enzyme. This is a new and exciting area of study in the development of innovative HIV treatments.

Avexa has continued to evaluate molecules for their ability to inhibit the HIV Integrase enzyme, sourcing the molecules from both its own laboratory, from the collection at CSIRO and from MNLpharma's PhytoPure library. To facilitate this work Avexa has established its own chemical synthesis laboratory. Avexa scientists also work effectively with scientists at the Shanghai Institute of Organic Chemistry through Avexa's collaboration with that institute.

Avexa has also been studying the structure of the HIV Integrase enzyme using crystallography in collaboration with the St Vincent's Institute of Medical Research in Melbourne. This sophisticated research has already led to data on the shape of the Integrase, which can be used to predict which molecules will bind to and stop the viral enzyme functioning.

Currently, Avexa is refining the new molecules for the required characteristics that will ensure the drug can be effectively administered to patients, and that appropriate levels of drugs can be reached in patients' blood.

Further preclinical studies will be undertaken in 2006.

Bioshares Magazine selects Avexa as a Super Six Stock

Respected and independent magazine *Bioshares* has selected Avexa as one of its Super Six Stock Picks for 2006, alongside Alchemia, Biota Holdings, Cytopia, Neuren Pharmaceuticals and Phylogica.

The magazine also noted Avexa as the "Most Valuable Player for 2005" saying:

"Avexa showed just what can be achieved if a biotech company is aggressive and can move quickly to secure new investment opportunities. The company in-licensed a HIV drug from Shire Pharmaceuticals in the United Kingdom in January, raised \$14 million in cash in February and March, and started its Phase IIb trial in July – good progress for a company that was spun out of Zenyth Pharmaceuticals (sic) (formerly Amrad) in 2004."

Avexa has also been involved in several overseas investor conferences, including JP Morgan Healthcare conference and Cowen & Co Healthcare conference, which continues to raise the profile of the Company.

AVX754 gets new name – apricitabine

Avexa's new HIV drug, AVX754, has been assigned an International Non-proprietary Name (INN) by the World Health Organisation.

The drug, currently in a Phase IIb trial, has been assigned the name apricitabine, which identifies it as a drug in the same class as other cytidine analogues (such as the marketed drug emtricitabine; Emtriva®, from Gilead Sciences) for the treatment of HIV.

Non-proprietary names are assigned to drugs that are either on the market or in a late stage of development. The aim is to give those drugs worldwide names which are easier to remember than their original laboratory name. These names are then used consistently across different countries.

The adoption of the new name is another significant step in the progress of apricitabine's development towards commercialisation.



Latest laboratory studies show apricitabine is active against resistant HIV

In late 2005 and in February this year two exciting new papers on apricitabine were published.

The first paper, by Bethell *et al*, *Antiviral Chemistry and Chemotherapy* (volume 16: pages 295-302), describes the activity of apricitabine against viral strains resistant to current drugs. Dr Julian Chick, Avexa's Chief Executive Officer, said "the study clearly supports the use of apricitabine for the treatment of drug-resistant HIV, which is the focus of the present Phase IIb trial. Drug-resistant strains of HIV are commonly found in patients failing their therapy, and Avexa is targeting those strains in the trial."

The second paper by Gu *et al*. (*Antimicrobial Agents and Chemotherapy*, February 2006, pages 625 to 631) also studied the activity of apricitabine when combined with a number of clinically used anti-HIV drugs. The results showed that apricitabine could be combined with all the different anti-HIV drugs tested without adversely affecting their activity.

Dr Chick said: "It is standard practice for HIV drugs from different classes to be combined with each other to improve the effectiveness

of therapy. However, some current drugs cannot be combined together because of adverse effects of the combination, and this limits their usefulness. It is most encouraging that apricitabine is likely to be able to be combined with all other classes of drugs."

Further encouraging findings in the paper relate to the lack of bone marrow and mitochondrial toxicity seen in cell culture, and the broad spectrum activity of apricitabine against a large range of HIV viruses from around the world.

Bone marrow and mitochondrial toxicity are key problems for some HIV drugs, and the absence of such side effects is an important advantage.

Taken together these two scientific publications provide a solid rationale that apricitabine will prove to be an effective and well-tolerated therapeutic option for a broad range of patients who are failing various types of HIV therapy because of drug-resistance.

The Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC)

In December, Avexa presented the data from apricitabine's latest Phase I clinical trial at the Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC), held in Washington DC. This conference is one of the most prestigious world venues for presenting new data on both basic research and clinical trials of anti-infective agents.

The Phase 1 clinical trial presented at ICAAC measured the effect of co-dosing an antibiotic commonly used in HIV-infected people (called Septrin®) with apricitabine. Co-dosing with Septrin® marginally increased the levels of apricitabine in the blood, similar to Septrin's® effect on lamivudine. This means that apricitabine can be easily co-dosed with Septrin® without any loss of antiviral effect. Septrin® is commonly used to prevent infections that can cause pneumonia in HIV-infected people.

At the same conference Avexa was particularly encouraged by an oral presentation given by the distinguished American HIV clinician Dr Joe Eron, Associate Professor of Medicine at the University of North Carolina. Dr Eron presented on the new HIV therapies currently in late-stage clinical development and started his presentation with a review of the nucleoside reverse transcriptase inhibitors in development. He praised the development work that has been carried out on apricitabine to show that it could replace lamivudine

Avexa's presence and participation at such conferences continues to raise the profile of both individual projects, (in this case AVX754), and the Company, particularly with HIV clinicians.

(but not be combined with it), giving apricitabine a clear therapeutic position. Dr Eron's presentation was well attended, and demonstrated clear interest from the wider infectious diseases clinical community. Many in the audience were impressed by the apricitabine data and supported its positioning as a replacement therapy for patients failing lamivudine or emtricitabine therapy. Data from the Phase IIb trial will strongly support this.

Avexa's presence and participation at such conferences continues to raise the profile of both individual projects, (in this case AVX754), and the Company, particularly with HIV clinicians. Furthermore, prestigious conferences such as ICAAC are often well attended by United States investment bank analysts and potential investors.

Financials

Below are the half yearly financial results for the six months ended 31 December 2005 and financial position as at that date as released in February.

Income Statement for the six months ended:	31 December 2005	31 December 2004
	\$'000	\$'000
Revenues	343	263
Less expenses		
Contract R&D	(1,713)	(835)
Personnel expenses	(1,311)	(700)
Amortisation of intellectual property	(3,000)	(3,000)
Other expenses	(1,727)	(905)
Operating loss	(7,408)	(5,177)
Balance Sheet as at 31 December 2005		
Current assets		
Cash assets	11,637	10,070
Receivables and other assets	175	197
Total current assets	11,812	10,267
Non-current assets		
Property, plant and equipment	233	20
Intangibles	3,000	9,000
Total non-current assets	3,233	9,020
Total assets	15,045	19,287
Current liabilities		
Payables	1,065	307
Provisions	192	95
Total current liabilities	1,257	402
Non-current liabilities		
Provisions	25	31
Total non-current liabilities	25	31
Total liabilities	1,282	433
Net assets	13,763	18,854
Equity		
Contributed equity	34,648	24,000
Accumulated losses	(20,885)	(5,146)
Total equity	13,763	18,854

Timetable for the next 12 months

Quarterly *Avexa News*

March 2006

Annual Report

September 2006

Quarterly *Avexa News*

June 2006

Quarterly *Avexa News*

December 2006



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:
feedback@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.