FORWARD FOCUSED

Annual Report 2014

AVEXA

CONTENTS

Avexa is a Melbourne-based biotechnology company with a focus on discovery, development and commercialisation of small molecules for the treatment of infectious diseases. Avexa's key projects include apricitabine (ATC) for the treatment of drug resistant HIV, an HIV Integrase program and an antibiotic program for antibiotic resistant bacterial infections.

CHAIRMAN'S REPORT

Dear Shareholder,

Over this past year, we have made significant progress towards our goal of completing the clinical development of our lead asset, ATC. The necessary financial foundation required to fund the final clinical development will soon be established through our investment in the North Pratt Coal Mine. In addition, we are initiating an Early Access (Named Patient) scheme which will enable needy patients worldwide to access ATC alongside the clinical development program.

As previously described, the sole purpose of the investment in the North Pratt Coal Mine is to provide returns that will underpin the clinical development of ATC. Good progress has been achieved in the initiation of mining activities, and we expect the first coal sales to occur before the end of the calendar year. Our investment in the North Pratt mine was structured by way of equity and interest-bearing loan, so the first cash flows from the mine will be applied to repaying Avexa's loan. We anticipate receiving the first cash returns in Q1 2015. These cash flows will be applied to the development of ATC.

We have also made significant progress towards establishing an Early Access scheme for ATC, through our collaboration with LINK Healthcare. These schemes sit alongside clinical trials and provide greater access to lifesaving drugs for patients in need. Manufacture of the necessary product was completed in September for shipment to LINK Healthcare's facility in Singapore. LINK's Singapore facility will act as the hub for worldwide distribution of ATC. We expect the scheme to be operational by the end of 2014. The increased availability of ATC through this Early Access scheme is an important step towards building interest in the product from both patients and physicians.

In connection with the 20th International AIDS Conference in Melbourne, we were able to meet with physicians and patients to discuss the potential role that ATC could play in HIV treatment. This resulted in a panel of eminent HIV experts meeting to discuss ATC, which was recorded by ViroChannel (virochannel.com). ViroChannel is an independent network for healthcare professionals focused on developing and reporting information pertaining to clinically relevant advances and developments in the science and practice of virology medicine. The discussion panel was extremely supportive of ATC and I recommend that you view the segment, which we expect to be available soon. We anticipate this to generate further interest in ATC and in the Early Access scheme.

Your Board is aware that attention over the past year has tended to be focused on the coal mine investment. This feedback was apparent during an investor roadshow the Company undertook mid-year. As we move forward into 2015, we expect that focus to shift, as revenues from the sale of coal are applied to ATC development, and as the Early Access scheme gets underway. Whilst the mine investment has been an important step to kick-start the ATC clinical trial, our end game has always been the development of ATC.

Finally, in November last year we advised that we would provide a facility for the sale of unmarketable parcels, considering the very large number of holders of 'unmarketable' parcels in the company's register. However, it became apparent that certain provisions in the Company's constitution created pricing anomalies which made this very difficult to carry out efficiently by executing on market sales for those parcels. To remedy this, the Directors will be recommending shareholders vote at the 2014 AGM on changes to the constitution which bring it into line with normal market practice. This will allow the large number of unmarketable parcels to be efficiently sold.

In closing, the Board acknowledges and thanks the small team at Avexa very much for their hard work and I personally remain grateful to my fellow Directors for their continued professional guidance and counsel.

Iain Kirkwood
Chairman

DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Group comprising of Avexa Limited (the Company), and its subsidiaries for the financial year ended 30 June 2014 and the auditor's report thereon.

Principal Activities

There have been two principal activities for the Group during the course of the financial year. Firstly, the research and development, for commercialisation, of anti-infective pharmaceutical programs and projects; and secondly, the prosecution of an investment in the North Pratt Coal Mine in Alabama, USA as a funding vehicle for the Company's research projects. The Company is a public company listed on the ASX, incorporated and domiciled in Australia, and with a registered office and principal place of business located at Suite 8, Level 1, 61–63 Camberwell Road, Hawthorn East, Victoria 3123. Except as disclosed elsewhere in this report, there have been no significant changes in the nature of these activities during the year.

Operating and Financial Review

During the year, Avexa's operations have focused on progressing our late stage project apricitabine (ATC), the early stage HIV integrase and antibiotic projects and the investment in the North Pratt Coal Mine.

The statement of profit or loss and other comprehensive income shows a loss of $2.9 million (2013: $3.0 million) for the year. The Group has no bank debt. As at 30 June 2014 the Group had a cash position of $3.4 million (2013: $11.9 million). Operating, financing and investing activities incurred a cash outflow for the year of $8.4 million (2013: $0.7 million).

Outlook and Risks

As described in more detail elsewhere in this report, Avexa's primary long term goal is to complete the final clinical development of ATC required to gain marketing approval. In order to fund this, the Board has made an investment in Coal Holdings USA, LLC, (CHUSA). The CHUSA investment is expected to provide the financial foundation to initiate clinical development of ATC, through revenues or other mechanisms.

The ability of the consolidated entity to meet operating cash requirements for the next 12 months and beyond is dependent on cash flows being generated from the successful execution of the CHUSA business plan. This is dependent on a number of factors, including, among others, assumptions relating to start-up costs, sales volumes, coal prices, working capital requirements and regulatory compliance. The same risks apply to actions planned and dependent on these revenues.

Preparation and manufacture of drug product containing ATC for the Early Access scheme has been completed in September. It is anticipated that the scheme will be available to patients before the end of calendar year 2014. Clinical use of ATC is subject to the usual risks for pharmaceutical products, including production, transport, and clinical risk. Initiation of clinical trial activities is expected to occur once sufficient funds are available from the investment in CHUSA.

The Growing Opportunity for ATC

The 20th International AIDS conference, held this year in Melbourne, highlighted the growing need for safe and effective new drugs for HIV infection. Treatment with anti-retroviral drugs (ART) is still the cornerstone of the fight against HIV/AIDS. Attempts to produce a vaccine against HIV have been stymied at every turn: of six large efficacy studies of different vaccines, only one showed a very slight protective effect. Three studies showed the vaccine produced no protective effect against infection at all, and in two studies, the number of HIV infections in those vaccinated actually increased. Furthermore, early hopes that a number of patients, including a young baby, had been cured of HIV infection by intensive, early treatment have not been sustained; the virus has re-emerged in each case. On the other hand, treatment with safe and effective drugs has been shown to both dramatically increase life expectancy and significantly reduce the risk of transmitting the disease to others. At present, therefore, traditional lifelong ART remains the only practical way to stem the HIV epidemic and save lives.

Consequently, an intensive effort is being made to greatly increase the numbers of HIV infected people being treated with ART. Globally, only 37 per cent of HIV infected people are being treated at present; in Eastern Europe, the figure is only 21 per cent. The World Health Organization (WHO) anticipates the number of people on ART in low or middle income countries will increase from 11.6 million person-years in 2013 to 16.8 million in 2016, with a goal of 20 million people on treatment by 2020. At the same time, projected economic growth indicates that 70 per cent of the low income countries presently prioritised for ART roll-out will be middle income economies by 2020.

However, the development of antiviral resistance results in patients needing to change their treatment for new, more active drugs. Although strict adherence to the therapeutic regimen can reduce the risk of resistance occurring, in practice it is impossible to ensure perfect levels of drug all the time. Whilst initial ART regimens are generally effective and well tolerated, the options for treatment after patients fail their treatment regimen become gradually less effective and poorly tolerated. ATC, on the other hand, provides such patients with both potent antiviral activity and excellent safety and tolerability.

These data indicate a growing opportunity for ATC in the treatment of HIV infection worldwide. As the number of people on first line ART grows, so does the number of people who eventually require second or third line treatment, where ATC is initially intended. Furthermore, three recently published clinical studies have shown that cytidine analogues (such as ATC and the older drug 3TC) are vital components of effective ART; drug regimens which contained an active cytidine analogue (3TC) were even more effective than those which contained other active but non-cytidine drugs. However, the development of resistance to 3TC after first line treatment failure is common, leaving such patients without an active, safe, and well tolerated alternative – except for ATC.

About ATC

Apricitabine (ATC) is Avexa's nucleoside reverse transcriptase inhibitor (NRTI) for the treatment of human immunodeficiency virus (HIV) infection. HIV is the virus which causes Acquired Immunodeficiency Syndrome (AIDS). In the 30 years since the first cases of AIDS were described, more than 30 million persons have been infected with the virus worldwide, and many millions have died. HIV primarily targets cells of the immune system, leaving infected individuals progressively defenceless against common diseases. Treatment with a combination of antiviral drugs which inhibit the replication of the virus can dramatically slow down the course of the disease, but drug resistance often develops. In many cases, resistance to one drug causes cross-resistance to other, as yet unused drugs. As a result, in practice, patients may have very few active drugs available to them. A further problem is the unwanted side effects of many of the currently used anti-retroviral drugs which can be intolerable or even life threatening. This can further restrict the drugs an individual patient can take. Lastly, many current drugs have significant interactions if they are given at the same time as other drugs the patient may need, such as drugs for diabetes, heart disease, hypertension, or bacterial infections. Taken together, this means that an individual patient may, in all reality, have very few appropriate drugs available.

ATC has significant potential to be a valuable new treatment for HIV as it addresses these pivotal issues: drug resistance, safety/tolerability and drug interactions. As well as showing antiviral activity against natural (wild-type) HIV, ATC is active against virus with various mutations that cause resistance to other NRTIs. These include the M184V mutation (associated with resistance to the currently used NRTIs lamivudine and emtricitabine) and thymidine analogue mutations (TAMs, associated with resistance to zidovudine and stavudine). These mutations are commonly found in patients, as the use of these existing NRTIs is widespread. ATC therefore has the potential to be a valuable treatment option for patients whose current treatments are no longer effective due to the development of drug resistance. In addition, resistance to ATC itself has not been observed even in patients who have been treated with ATC for three years. Clinical trials of ATC have shown it to be safe and very well tolerated. ATC is easy to dose and may be taken with or without food. ATC does not produce deleterious interactions when dosed with a variety of different drugs known to produce interactions with current HIV medications. These key properties of ATC, lack of resistance, safety, and ease of dosing, are exactly those which are required in patients who have developed resistance to the currently used drugs.

Preparing for Early Access to ATC

Our continued interactions with patient advocates, community groups, scientists and medical practitioners confirm the clear medical need for ATC. In many countries, special procedures exist which allow the provision of promising new drugs to patients with serious, life-threatening conditions prior to formal regulatory approval. Such early access schemes (called the Special Access Scheme or SAS in Australia) can enable many more patients to access a drug than a clinical trial alone can. In certain countries, mechanisms for cost recovery of this process exist. During the year, we have completed the manufacture of ATC product for this purpose. We are working with our partner LINK Healthcare, who has extensive experience in the provision of products by this process.

We have also worked with our manufacturer to establish plans for the continued manufacture of ATC to ensure our stocks of ATC remain amply sufficient for all purposes, including clinical trials. An analysis of the current manufacturing process has also been completed, and we have identified ways to further improve the efficiency and robustness of the process as we move towards larger-scale manufacture.

Discovery Programs

Increased Importance of HIV Integrase Inhibitors

New data from the 2014 AIDS conference has established HIV integrase inhibitors as very important components of safe and effective treatment, alongside cytidine analogues such as 3TC (and ATC). ART regimens containing integrase inhibitors produce the most rapid decline in virus of all regimens to date, with good tolerability and limited development of resistance. However, the three HIV integrase inhibitors currently available are aimed at first line treatment of newly infected patients. Patients who have failed an integrase-based regimen may develop resistance to the current HIV integrase inhibitors. For these patients, only one integrase inhibitor (dolutegravir) may still remain useful, but it must be dosed twice daily. There is therefore a considerable opportunity for a once daily, stand-alone integrase inhibitor which can be combined with any other drug of choice for use beyond first line treatment.

Expansion of Early Stage HIV Integrase Inhibitors

We have continued to expand our library of HIV integrase inhibitors, building on our previous discoveries of compounds which showed the potential for once daily dosing. A number of new compounds have been synthesised and tested against both wild-type and integrase-resistant HIV, with very good results. Analysis of the results has indicated the potential for further chemical modifications to continue to explore these series of compounds. Several promising candidates have been identified for further study. Continued optimisation of these compounds will narrow down the field towards the ideal candidate. We continue to prosecute a number of patent applications covering these compounds, to ensure a comprehensive and strong IP protection.

Antibiotic Program

Staphylococcus aureus (also called Golden Staph) is a bacterium which is a common cause of skin infections. These are usually mild and can be treated using antibiotic tablets or creams, but staphylococcal infections can turn deadly if the bacteria invade deeper into the body, resulting in pneumonia, food poisoning, toxic shock syndrome or blood poisoning (bacteraemia). Hospital acquired (nosocomial) infections affect one in 10 patients admitted to hospital in the United Kingdom for example, and result in an average 2.5 times longer hospital stay and an additional cost of £3000. Intensive care units (ICU) are even more at risk, with a European study showing an infection prevalence rate of 20.6 per cent.

Clostridium difficile is also a major problem as a nosocomial pathogen. *C. difficile* is normally found in low numbers in the gut, but when other normal gut bacteria are killed by antibiotics it can outgrow. This can result in severe diarrhoea and inflammation of the colon, which can be life-threatening, especially among the elderly. *C. difficile* is easily spread by touch, and its spores are resistant to many cleaning agents; hence it has become one of the most serious nosocomial pathogens. Three recently published studies have estimated the annual cost of managing cases of *C. difficile* infection in the United States ranges from US$436 million to more than US$3 billion.

AVX13616, Avexa's novel antibiotic has been shown to have antimicrobial activity against both *Staphylococcus aureus* and *C. difficile*, including against clinical isolates of bacteria from current hospital cases of disease. The ideal treatment for *C. difficile* would be a drug which acts locally at the site of the infection in the gut, but not systemically (throughout the whole body) where treatment is not required. However, many current antibiotics must either be delivered intravenously (and therefore systemically) or are absorbed systemically after oral dosing. We believe that our lead compound AVX13616 may avoid the problems of systemic exposure after oral dosing, and therefore be particularly suited to the local treatment of the gut.

Last year, on the basis of these results our commercial partner Valevia UK, with support from Avexa, succeeded in obtaining a grant from the UK Technology Strategy Board to undertake further pre-clinical studies in preparation for clinical studies. These studies were aimed at understanding the behaviour of the lead compound in its interaction with the whole body compartment. The studies have been progressing with the emphasis in obtaining as much evidence as possible for the behaviour of AVX13616 at the gastrointestinal site of potential activity. It is important that AVX13616 is delivered in an appropriate formulation so that it survives the hostile environment of the gut and remains unabsorbed and active at the site of *C. difficile* replication and toxin production. When these issues are fully understood, production of the required quantities of AVX13616 in a form suitable for an animal model in vivo proof of concept study will be initiated, prior to clinical studies.

Corporate

North Pratt Investment

The Directors conservatively estimate the development of ATC through late stage, Phase III trials to marketing approval will cost in the range of $30 million to $40 million. Given both the current market capitalisation of Avexa and the current risk-averse equity capital markets, the Directors have concluded that a sufficiently large capital raise to fund these trials is unlikely to be achieved – at least in the short term. Further, and as explained in some detail in previously, it has become very clear that the number of large pharmaceutical companies active in the area of HIV drug discovery and development has shrunk considerably, and, despite extensive efforts, it has not proved possible to secure an out-licensing deal of sufficient magnitude to fund these Phase III trials.

Last year an opportunity arose to invest in a coal mine in North Pratt, Alabama. The North Pratt Coal Mine is an existing mine with an estimated 20 million tons of remaining in-situ coal reserves. Projections indicated that, for an investment of US$4 million and a further loan of US$6 million, Avexa could acquire a 25 per cent stake in the North Pratt Coal Mine, and that revenue from this investment could underpin financing the development of ATC.

On 11 December 2013 Avexa announced that it had finalised the investment in the North Pratt coal project through CHUSA. Importantly, Avexa's investment and loan had reduced to a total of US$8 million from the previously indicated US$10 million and an increase to a 30 per cent equity interest.

Significant progress has been made in rehabilitating the mine and building the infrastructure of the mine site including the roadway, wash plant foundations, scale house, bath house and mine offices. At the date of this report the mine had been opened, rehabilitated and is being prepared for coal production.

A very experienced local Chief Financial Officer, Mr Rick Acosta, has been engaged to oversee all the financial aspects of the project. Mr Acosta has held senior financial management positions in the manufacturing sector in the USA and most recently was the CFO/Financial Controller of a start-up coal venture in West Virginia. Prior to this, he was with Drummond Company, of Alabama, USA, a global leader in coal production.

In addition, Mr Robert Payne, a very experienced mining professional has been appointed to the position of General Manager. Mr Payne has a degree in mining engineering from the University of Alabama and has nearly 30 years' experience in the mining industry. He spent nine years with Drummond coal, one of the world's leading coal producers and distributors. Mr Payne has had practical as well as management experience in all of the operational aspects of coal mining that are required for the North Pratt coal venture.

The project is currently on schedule with an anticipated production start-up date towards the end of 2014. The revenue expected to be generated from the mine will depend partly on the sale price achieved as well as other factors such as cost of production. A sale price of US$100/ton would be US$51 million p.a. gross. It is intended to leverage Avexa's investment to underpin the financing of the AVX-305 trial and complete the clinical development of ATC.

Preservation of Cash – New Premises

As described in last year's report, we have completed a major relocation to much smaller premises in Hawthorn East from our long term facilities in Richmond. Our previous premises had been inherited as a result of a historical legacy from our previous parent company and were large and costly. This reorganisation has now been completed. The net effect of our removal to new premises has been a 95 per cent reduction in total occupancy expenses. We will continue to ensure our operations remain nimble and prudent.

Capital and Corporate Structure

During the financial year ended 30 June 2014, on 30 December 2013, the Company allotted and issued 77,961,787 new shares under the Share Purchase Plan (SPP) announced on 14 November 2013. The SPP raised $1,013,500 which will provide further working capital for the Company.

Full details of movements in share capital for the year are detailed in Note 18 to the financial statements. There were no changes to the corporate structure of Avexa Limited during the financial year ended 30 June 2014.

Unissued Shares Under Option

During the year nil (2013: nil) options to acquire ordinary shares were issued to staff, nil (2013: nil) to Executive Officers, nil (2013: nil) to the Interim CEO/Chief Scientific Officer and nil (2013: nil) to Directors. Nil (2013: nil) options were exercised during the financial year for total proceeds of nil (2013: nil). 4,180,000 (2013: 3,080,000) options lapsed during the financial year and 10,000 (2013: nil) options were forfeited upon the departure of Directors or employees during the financial year.

At 30 June 2014 there were nil options (30 June 2013: 4,190,000) on issue to Directors, Executives and employees. There have been 4,190,000 (2013: 3,080,000) options lapsed or forfeited, nil (2013: nil) approved to be issued and nil (2013: nil) exercised after the reporting date and up to the date of this report, such that at the date of this report there were no unissued ordinary shares of the Group under option.

Directors

The Directors of the Company at any time during the year or since the end of the financial year are as follows. Directors were in office for the entire period unless stated otherwise:

Name, Qualification and Independence Status (Age)	Experience, Special Responsibilities and Other Directorships
Mr Iain Kirkwood Independent Non-Executive Chairman (62) Qualifications: MA (Hons) Oxon, FCPA, CA, MAICD	Mr Kirkwood joined the Board on 9 August 2010 and was appointed as Non-Executive Chairman on 18 April 2011. He is Chairman of the Avexa Audit Committee and a member of the Avexa Remuneration and Nomination Committee. He has extensive operational, financial, general management and boardroom experience, particularly in the life sciences industry. He is currently serving as Chairman of Bluechiip Limited (ASX.BCT), Chairman of MHM Metals Ltd (ASX.MHM) and as a Non-Executive Director of Vision Eye Institute Ltd. (ASX.VEI). During his career Mr Kirkwood has worked with a number of ASX listed companies in senior management roles, including Woodside Petroleum Ltd. and Santos Ltd, and was previously the CFO of F.H. Faulding & Co. Ltd. and CEO of EpiTan Ltd. (now Clinuvel Pharmaceuticals Ltd).
Mr Bruce Hewett Independent Non-Executive Director (60) Qualifications: BAppSc. (Pharmacy), GAICD	Mr Hewett joined the Board on 6 July 2010 as a Non-Executive Director of the Company and is a member of the Avexa Audit Committee and Chairman of the Avexa Remuneration and Nomination Committee. He brings more than 25 years' experience in the pharmaceutical and healthcare industries. He is a Non-Executive Director of the private pharmaceutical company Vector Pharma Holdings Ltd and is currently Managing Director of RxConnect International Pty Ltd, a pharmaceutical industry consulting firm. Mr Hewett has held senior roles with Janssen-Cilag, Faulding Pharmaceutical and founded specialist pharmaceutical company Max Pharma.
Mr Allan Tan Independent Non-Executive Director (49) Qualifications: LLB (Hons) University of Buckingham (UK) Barrister-at-Law (Gray's Inn) MA London-Guildhall University (UK)	Mr Tan joined the Board on 1 December 2010. He is a Non-Executive Director of the Company and is a member of both the Avexa Audit Committee and the Avexa Remuneration and Nomination Committee. He is also an Independent Director of Singapore listed companies, Adventus Holdings Limited and CNMC Goldmine Holdings Limited. Mr Tan is a partner in a Singapore law firm, Virtus Law LLP.

Company Secretary

Mr Lee Mitchell BA LLM

Mr Mitchell was appointed as Company Secretary of Avexa Limited on 1 December 2010. He is a qualified lawyer and has practised in corporate and commercial law since 1995.

Directors' Interests

The relevant interest of each Director in the share capital of the Company, as notified by the Company to the ASX in accordance with S205G (1) of the *Corporations Act 2001*, as at the date of this report is as shown following.

Director	Number of Ordinary Shares	Number of Options to Acquire Ordinary Shares
Mr I Kirkwood	11,842,311	-
Mr B Hewett	3,153,847	-
Mr A Tan	769,230	-

Directors' Meetings and Committee Membership

Due to the small number of Non-Executive Directors on the Board, all Non-Executive Directors are members of the Audit Committee and the Avexa Remuneration and Nomination Committee. The role of the Audit Committee ordinarily is to give the Board of Directors assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report. The role of the Remuneration and Nomination Committee is to assume responsibility for the composition of the Board and nomination of new Directors and reviewing and monitoring the performance of the Performance Management and Development System for Director, Executive and staff remuneration. The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

	Board Meetings		Audit Committee Meetings		Remuneration and Nomination Committee Meetings	
Director	Attended	Held[(i)]	Attended	Held[(i)]	Attended	Held[(i)]
Mr I Kirkwood	9	9	5	5	4	4
Mr B Hewett	9	9	5	5	4	4
Mr A Tan	9	9	5	5	4	4

(i) Represents the number of meetings held during the time that the Director held office.

Dividends

The Directors do not recommend a dividend be paid or declared by the Company for the year. No dividend has been paid by the Company since its incorporation on 7 April 2004.

Significant Changes in the State of Affairs

Other than the finalisation of the investment in Coal Holdings USA LLC (CHUSA) as detailed elsewhere in this financial report, there has been no significant change in the state of affairs of the Company.

Environmental Regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or state legislation. The Directors believe that the Group has adequate systems in place for the management of its environmental requirements and are not aware of any breach of those environmental requirements as they apply to the Group.

Events Subsequent to Reporting Date

In the interval between the end of the financial year and the date of this report no item, transaction or event of a material and unusual nature has arisen that is likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Indemnification and Insurance of Officers

Indemnification

The Company has agreed to indemnify the Directors of the Company against liability arising as a result of a Director acting as a Director or other officer of the Company. The indemnity includes a right to require the Company to maintain Directors' and Officers' Liability insurance that extends to former Directors. The indemnity provided by the Company is an unlimited and continuing indemnity irrespective of whether a Director ceases to hold any position in the Company.

Insurance Premiums

Since the end of the financial year, the Company has paid a premium of $30,250 for Directors' and Officers' Liability insurance for current and former Directors and officers, including Executive Officers of the Company. The Directors have not contributed to the payment of the policy premium.

The Directors' and Officers' Liability insurance policy covers the Directors and officers of the Company against loss arising from any claims made against them during the period of insurance (including company reimbursement) by reason of any wrongful act committed or alleged to have been committed by them in their capacity as Directors or officers of the Company and reported to the insurers during the policy period or if exercised, the extended reporting period.

Risk Management

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. The Company believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee. Instead sub-committees are convened as appropriate in response to issues and risks identified by the Board as a whole, and each respective sub-committee further examines the issue and reports back to the Board.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- implementation of Board-approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature; and
- the establishment of committees to report on specific business risks, including for example, such matters as strategic investments.

The Audit Committee assists in discharging the Board's responsibility to manage the organisation's financial risks. The Committee advises the Board on such matters as the Group's liquidity, currency, credit and interest rate exposures and monitors management's actions to ensure they are in line with Group policy.

Rounding Off

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

The lead auditor's independence declaration forms part of the Directors' Report for the year ended 30 June 2014 and is set out on page 19.

Non-audit Services

The following non-audit services were provided by the Group's auditor KPMG during the financial year. The Directors are satisfied that the provision of non-audit services is compatible with the general standard for independence imposed by the *Corporations Act 2001* and with the Company's own Auditor Independence Policy. The nature and scope of each of the non-audit services provided means that auditor independence was not compromised. KPMG received or is due to receive the following amounts for the provision of the following services:

Non-audit Services	
Tax compliance and other advisory services	$17,210
Other assurance services	$57,037
Total non-audit services	$74,247

REMUNERATION
REPORT

This report outlines the compensation arrangements in place for Directors and Senior Executives of the Company being the Key Management Personnel (KMP) of the Company – being those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director and includes all the Executives in the Company. For the purposes of this report, the term 'Executive' includes the interim CEO/CSO and Senior Executives but does not include the Non-Executive Directors or the secretary of the Company. All sections contained herein have been subject to audit as required by Section 308(3C) of the Corporations Act. Remuneration is referred to as compensation in this report.

Details of KMP including the top remunerated Executives of the Company are set out in the tables on page 14. There have been no changes to KMP after the reporting date and before the date of this report.

Company Performance

	2014	2013	2012	2011	2010
Net profit/(loss) attributable to equity holders of the parent	**(2,896,604)**	(2,977,497)	(3,513,138)	(4,402,000)	(41,488,378)
Closing share price ($)	**.014**	.014	.022	.042	.033

Principles of Compensation

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements for Non-Executive Directors (NEDs) and Executives. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of NEDs and Executives on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-performing Director and Executive team. The Remuneration Committee comprises all of the NEDs.

Avexa Limited's remuneration strategy is designed to attract, motivate and retain employees and NEDs by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group. To this end, key objectives of the Company's reward framework are to ensure that remuneration practices are aligned to the Group's business strategy, offer competitive remuneration benchmarked against the external market, provide strong linkage between individual and Group performance and rewards and align the interests of Executives with shareholders.

In accordance with best practice corporate governance, the structure of NED and Executive remuneration is separate and distinct.

The Board assumes full responsibility for compensation policies and packages applicable to Directors and Senior Executives of the Company. The broad compensation policy is to ensure the compensation package appropriately reflects the person's duties and responsibilities, and that compensation levels are competitive in attracting, retaining and motivating people who possess the requisite level of skill and experience. Employees may receive at-risk incentive payments remunerated as cash or share options based on the achievement of specific goals related to the performance of the individual and the Company (as determined by the Directors). Incentives are provided to Senior Executives and employees for the achievement of individual and strategic objectives with the broader view of creating value for shareholders.

Fixed Compensation

Fixed compensation consists of a base compensation package, which includes Fringe Benefits Tax calculated on any salary packaging arrangements and employer contributions to superannuation funds. Fixed compensation levels for KMP and senior members of staff are reviewed at least annually by the Remuneration Committee and comprising the Company's Key Management Personnel (KMP), through a process that considers the employee's personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data. Compensation recommendations for other staff are conducted by the interim CEO who then makes recommendations to the Remuneration Committee for final approval.

Key Performance Indicators (KPIs) are individually tailored by the Board, based on recommendations and input by the interim CEO in advance for each employee each year, and reflect an assessment of how that employee can fulfil his or her particular responsibilities in a way that best contributes to Company performance and shareholder wealth in that year. KPIs and compensation levels are set for the interim CEO by the Remuneration Committee and Board adopting the same process as that adopted for staff, with close alignment to the role and responsibility within the organisation and in conjunction with the strategic objectives of the Company.

Performance-linked Compensation and Short Term Performance Incentives

All employees may receive at-risk incentive payments and/or securities (shares or options) based on the achievement of specific goals related to (i) performance against individual key performance indicators and/or (ii) the performance of the Company as a whole as determined by the Directors based on a range of factors. These factors include traditional financial considerations such as operating performance, cash consumption and deals concluded and also industry-specific factors relating to the advancement of a project portfolio, introduction of new projects to the portfolio, collaborations and relationships with scientific institutions, third parties and internal employees.

Employment contracts for staff other than the interim CEO provide for at-risk incentive compensation of up to 10 per cent of their total fixed compensation package (although higher incentive compensation payments may be made at the Board's discretion). Typically incentive compensation is split 50 per cent on personal performance and 50 per cent on Company performance.

The Board at its sole discretion determines the total amount of performance-linked compensation payable as a percentage of the total annualised salaries for all employees employed as at the end of the financial year (with pro rata reductions to the annualised salary made for any employee not employed for the entire financial year).

The interim CEO makes a recommendation annually to the Board in respect of incentive compensation for employees and Executives with the decision to award a performance incentive resting with the Board for decision. The Board similarly reviews the performance of the CEO and resolves accordingly on the appropriate level of performance incentive to be paid.

An amount of $12,500 (2013: $63,500) has been accrued at the end of the 2014 financial year by way of an employee benefit provision in respect of performance incentives for the 2014 financial year. An amount of $37,000 (2013: $63,500) was paid in the August 2014 payroll in respect of staff performance for the 2013 financial year in lieu of the share-based payment expense previously provided for in respect of the 2013 financial year.

An amount of nil (2013: $37,000) has been recognised in the 2014 financial year by way of shared-based payment expense in respect of performance incentives achieved in respect of key performance indicators set for the 2014 financial year.

The Interim CEO has the discretion to recommend the offer of options to acquire ordinary shares or the direct issue of shares to any member of staff in recognition of exemplary performance. Such securities may be fully vested upon issue given that they are issued as a reward for past performance rather than as a long term incentive. Any issue of options proposed as incentive compensation requires approval by the Board and is subject to any limitations imposed by the Corporations Act and the ASX Listing Rules. The Board considers that the performance linked compensation structure is operating effectively.

At, or as soon as practicable after, the beginning of the financial year, individual and team performance for the previous year is assessed for every employee by their manager and new objectives set for the forthcoming year. These objectives include department and project-specific objectives together with individual stretch objectives, challenging, realistic and personal development objectives tailored to the employee's role within the organisation. Measurement, management support, target dates and training course requirements are all set. Progress against the objectives is reviewed during the year and percentage achievement concluded at the end of the year, whereupon the cycle recommences. The outputs of this process form the basis of the assessment of the individual's personal incentive compensation.

Service Contracts

All Avexa Executives other than the Company Secretary are employed under contracts with the following common terms and conditions:

	Notice Period	Payment in Lieu of Notice	Treatment of Short Term Incentives	Treatment of Long Term Incentives
Termination by Company	3 months (6 months for Interim CEO/CSO)	3 months (6 months for Interim CEO/CSO)	Board discretion	Board discretion depending on circumstances
Termination for Cause	None	None	Unvested awards are forfeited	Unvested awards are forfeited
Termination by Employee	6 weeks (3 months for Interim CEO/CSO)	None	Unvested awards are forfeited	Unvested awards are forfeited

In the event of a change in control and an Executive's position becomes surplus to requirements, that Executive's options, if any, will vest and be exercisable within a 30-day period, at the conclusion of which the options will expire. The Executive will receive, in addition to the notice period, six months' payment in the event of a redundancy following a change in control.

On termination for cause, the Executive will only be entitled to any outstanding payments in respect of the base remuneration package which are payable to the Executive for the Executive's period of service up to the date of termination.

The Company Secretary is engaged by the Company under a consultancy agreement. The agreement provides a fixed monthly fee for 'in scope' services with additional work charged at hourly rates. The consultancy agreement is a rolling contract and can be terminated by either party by giving one month's notice in writing to the other party.

Long Term Incentive

From time to time Board approval may be sought for the issue of options to acquire ordinary shares to staff and Executives as a means of providing a medium to long term incentive for performance and loyalty. Any such options are issued under the Employee Share Option Plan (ESOP).

2014
No issues of options occurred in 2014.

2013
No issues of options occurred in 2013.

Other Benefits

In addition to the fixed and at-risk compensation, the Company provides salary continuance cover for its permanent employees engaged in more than 20 hours work per week and pays the administration fees for employees participating in the Aon Master Trust superannuation fund.

The value for 'Non-cash Benefits' in the compensation tables represents the value of motor vehicle costs salary packaged by an Executive.

Director Compensation

The Constitution and the ASX Listing Rules specify that the aggregate compensation of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount approved by shareholders is then divided between the Directors as agreed by the Board. An amount of $350,000 was approved at the Company's inaugural Annual General Meeting held on 4 October 2005.

Non-Executive Directors do not receive performance-related compensation and the structure of Non-Executive Director and senior management compensation is separate and distinct. Non-Executive Directors do not have contracts of employment but are required to evidence their understanding and compliance with the Board policies of Avexa Limited. These Board policies do not prescribe how compensation levels for Non-Executive Directors are modified from year to year. Compensation levels are to be reviewed by the Board each year taking into account cost of living changes, changes to the scope of the roles of the Directors, and any changes required to meet the principles of the overall Board policies.

Directors' base fees of $50,000 and $100,000 for the Non-Executive Directors and the Chairman respectively have applied from 7 July 2010. The Chairman of the Audit and Risk Committee and the Remuneration and Nomination Committee have each received an additional $5,000 per annum, inclusive of superannuation, in recognition of these additional duties.

Directors' and Executive Officers' Compensation Tables

Details of the nature and amount of each major element of the compensation of each Director of the Company and each of the three named officers of the Company receiving the highest compensation for the period that the Director or officer held that position during the current and prior financial years are disclosed in accordance with Accounting Standard AASB 124 *Related Party Disclosures* and with the C*orporations Act 2001* in the following tables.

No options held by persons in the following compensation tables were exercised during the 2014 and 2013 financial years.

Details of the Company's policy in relation to the proportion of compensation that is performance-related are provided earlier in this report. For the individuals named in the Directors' and Executive Officers' compensation tables, details of their service contracts are provided under the heading of 'Service contracts' earlier in this report. Figures in brackets represent the value of bonuses/incentives and options respectively as a percentage of total compensation.

In the following tables, the fair value of the options granted to Executive Officers has been calculated based on the value at the date of grant using a valuation model that takes into account the performance hurdles and vesting period related to those options. The value as disclosed is the portion of the fair value of the options allocated to this reporting period. Refer to the next sections of this report for full details of the option valuations.

CEO and CSO Performance Incentive Compensation Tables

The total bonus/incentive compensation value in 2013 of $49,500 for Dr Coates was based on the identification of a new group of compounds with anti-HIV activity against integrase inhibitor resistant strains, and progress in the securing of marketing partners for ATC. The total bonus compensation also included an amount of $20,000 during 2013 in recognition of his significant efforts during FY12 in advancing the licensing of ATC and achieving significant successes in relation to the HIV Integrase Program.

2014

	Short Term						
	Base Compensation (Salary and Fees) $	Consulting Fees $	Bonuses/ Incentives $	Post Employment: Superannuation Contributions $	Share-based Payments: Shares and Options Issued $	Termination Benefits $	Total Compensation $
Directors							
Non-Executive							
Mr I Kirkwood [i]	105,000	16,500	-	-	-	-	121,500
Mr B Hewett [ii]	55,000	-	-	-	-	-	55,000
Mr A Tan [iii]	50,000	12,000	-	-	-	-	62,000
Total compensation	**210,000**	**28,500**	**-**	**-**	**-**	**-**	**238,500**
Executives							
Key Management Personnel							
Dr J Coates [iv]	202,553	-	-	18,736	-	-	221,289
Ms M Klapakis [v]	139,543	-	12,500 (7.6%)	12,908	-	-	164,951
Dr S Cox [vi]	166,277	-	-	15,381	-	-	181,658
Total compensation	**508,373**	**-**	**12,500**	**47,025**	**-**	**-**	**567,898**

(i) Appointed on 9 August 2010. Appointed Chairman on 18 April 2011.

(ii) Appointed on 6 July 2010.

(iii) Appointed on 1 December 2010.

(iv) Ceased employment on 7 May 2010. Re-appointed on 12 July 2010.

(v) Appointed on 1 December 2010.

(vi) Appointed 7 February 2013.

2013

	Short Term						
	Base Compensation (Salary and Fees) $	Consulting Fees $	Bonuses/ Incentives $	Post Employment: Superannuation Contributions $	Share-based Payments: Shares and Options Issued $	Termination Benefits $	Total Compensation $
Directors							
Non-Executive							
Mr I Kirkwood[i]	101,501	-	-	3,500	8,280 (7.3%)	-	113,281
Mr B Hewett[ii]	55,000	-	-	-	4,140 (7%)	-	59,140
Mr A Tan[iii]	50,000	-	-	-	4,140 (7.6%)	-	54,140
Total compensation	**206,501**	**-**	**-**	**3,500**	**16,560**	**-**	**226,561**
Executives							
Key Management Personnel							
Dr J Coates[iv]	194,295	-	45,000 (15.7%)	23,262	24,500 (8.5%)*	-	287,057
Ms M Klapakis[v]	130,968	-	13,500 (8.5%)	14,347	-	-	158,815
Dr S Cox[vi]	152,840	-	20,000 (9.6%)	23,796	12,500 (6%)*	-	209,136
Total compensation	**478,103**	**-**	**78,500**	**61,405**	**37,000**	**-**	**655,008**

* Fully paid ordinary shares to this value were to be issued after the release of the Group's financial statements. A five-day VWOP would have been applicable to the issue of the shares. An amount of $37,000 was paid in the August 2014 payroll in lieu of the share-based payment expense previously provided for in respect of the 2013 financial year.

(i) Appointed on 9 August 2010. Appointed Chairman on 18 April 2011.

(ii) Appointed on 6 July 2010.

(iii) Appointed on 1 December 2010.

(iv) Ceased employment on 7 May 2010. Re-appointed on 12 July 2010.

(v) Appointed on 1 December 2010.

(vi) Appointed 7 February 2013.

Grants, Modifications and Exercise of Options and Rights Over Equity Instruments Granted as Compensation

There were no options granted as compensation during the financial year. There were no options exercised during the financial year by any of these persons nor were there any alterations or modifications to existing terms and conditions.

2014
No options were granted during the 2014 financial year.

2013
No options were granted during the 2013 financial year.

2014

Fair Value of Options

The fair values of the options granted to Executive Directors and officers in the above tables have been calculated at grant date using a binomial valuation model that takes into account the performance hurdles and vesting period related to those options, The value as disclosed is the portion of the fair value of the options allocated to this reporting period. The factors and assumptions used in determining the fair value on grant date are detailed in the table below. Comparative information for the 2013 financial year has not been restated as market conditions were already included in the prior valuation. A zero divided assumption has been adopted in every valuation.

There were nil options issued during the 2014 financial year.

There were nil options issued during the 2013 financial year.

Shares Issued on Exercise of Options

During the financial year the Company issued nil (2013: nil) ordinary shares upon the exercise of options for total proceeds of $nil (2013: $nil). Since the end of the financial year up to the date of this report the Company has issued nil (2013: nil) shares upon exercise of options for total proceeds of $nil (2013: $nil).

Key Management Personnel (KMP)

The numbers of options issued, vested and exercisable, and forfeited or lapsed during the financial year and prior financial year for KMP are shown in the following tables. No options were exercised by KMP during the year.

2014

	Number of Options Held at 1 July 2013	Number of Options Issued During Year	Number of Options Lapsed During Year	Number of Options Held at 30 June 2014	Number of Options Vested at 1 July 2013	Number of Options Vested During the Year	Number of Vested Options Lapsed During Year	Number of Options Vested at 30 June 2014
Directors								
Mr I Kirkwood	2,000,000	-	(2,000,000)	-	2,000,000	-	(2,000,000)	-
Mr B Hewett	1,000,000	-	(1,000,000)	-	1,000,000	-	(1,000,000)	-
Mr A Tan	1,000,000	-	(1,000,000)	-	1,000,000	-	(1,000,000)	-
Executives								
Dr J Coates	150,000	-	(150,000)	-	150,000	-	(150,000)	-
Ms M Klapakis	15,000	-	(15,000)	-	15,000	-	(15,000)	-
Dr S Cox	-	-	-	-	-	-	-	-
Total Executives	**4,165,000**	**-**	**(4,165,000)**	**-**	**4,165,000**	**-**	**(4,165,000)**	**-**

2013

	Number of Options Held at 1 July 2012	Number of Options Issued During Year	Number of Options Lapsed During Year	Number of Options Held at 30 June 2013	Number of Options Vested at 1 July 2012	Number of Options Vested During the Year	Number of Vested Options Lapsed During Year	Number of Options Vested at 30 June 2013
Directors								
Mr I Kirkwood	2,000,000	-	-	2,000,000	2,000,000	-	-	2,000,000
Mr B Hewett	1,000,000	-	-	1,000,000	1,000,000	-	-	1,000,000
Mr A Tan	1,000,000	-	-	1,000,000	1,000,000	-	-	1,000,000
Executives								
Dr J Coates	3,150,000	-	(3,000,000)	150,000	3,150,000	-	(3,000,000)	150,000
Ms M Klapakis	25,000	-	(10,000)	15,000	25,000	-	(10,000)	15,000
Dr S Cox	-	-	-	-	-	-	-	-
Total Executives	**7,175,000**	**-**	**(3,010,000)**	**4,165,000**	**7,175,000**	**-**	**(3,010,000)**	**4,165,000**

Equity Holdings and Transactions

The movements during the reporting period and prior reporting period in the number of ordinary shares in Avexa Limited held, directly or indirectly or beneficially, by each specified Director and specified Executive, including their personally-related entities are shown in the following tables. For persons who commenced or ceased as a Director during a period, figures reported are for the period of appointment only.

2014 Directors

	Holding of Ordinary Shares at 1 July 2013 (or Date of Appointment)	Shares Sold on Market During the Financial Year	Shares Acquired on Market During the Financial Year	Holding of Ordinary Shares at 30 June 2014 (or Date of Resignation)
Directors	**Number**	**Number**	**Number**	**Number**
Mr I Kirkwood	9,150,000	-	2,692,311	11,842,311
Mr B Hewett	2,000,000	-	1,153,847	3,153,847
Mr A Tan	-	-	769,230	769,230
Total Directors	**11,150,000**	**-**	**4,615,388**	**15,765,388**

2013 Directors

	Holding of Ordinary Shares at 1 July 2012 (or Date of Appointment)	Shares Sold on Market During the Financial Year	Shares Acquired on Market During the Financial Year	Holding of Ordinary Shares at 30 June 2013 (or Date of Resignation)
Directors	**Number**	**Number**	**Number**	**Number**
Mr I Kirkwood	650,000	-	8,500,000	9,150,000
Mr B Hewett	100,000	-	1,900,000	2,000,000
Mr A Tan	-	-	-	-
Total Directors	**750,000**	**-**	**10,400,000**	**11,150,000**

2014 Executives

	Holding of Ordinary Shares at 1 July 2013	Shares Sold on Market During the Financial Year	Shares Acquired on Market During the Financial Year	Holding of Ordinary Shares at 30 June 2014
Executives	**Number**	**Number**	**Number**	**Number**
Dr J Coates	1,532,519	-	-	1,532,519
Dr S Cox [i]	1,129,951	-	-	1,129,951
Ms M Klapakis	139,029	-	-	139,029
Total Executives	**2,801,499**	**-**	**-**	**2,801,499**

2013 Executives

	Holding of Ordinary Shares at 1 July 2012	Shares Sold on Market During the Financial Year	Shares Acquired on Market During the Financial Year	Holding of Ordinary Shares at 30 June 2013
Executives	**Number**	**Number**	**Number**	**Number**
Dr J Coates	1,032,519	-	500,000	1,532,519
Dr S Cox [i]	629,951	-	500,000	1,129,951
Ms M Klapakis	69,029	-	70,000	139,029
Total Executives	**1,731,499**	**-**	**1,070,000**	**2,801,499**

Alteration to Option Terms

Other than in accordance with ASX Listing Rule adjustments to option exercise prices following pro rata issues of securities, there has been no alteration to option terms and conditions during or since the end of the financial year up to the date of this report.

Consequences of Performance on Shareholder Wealth

In considering the Group's performance and how best to generate shareholder value, the Board has regard to a broad range of factors, some of which are financial and others of which relate to the scientific progress on the Company's projects when applicable, relationship building with research institutions, projects introduced, staff development etc. The Board has some but not absolute regard to the Group's result and cash consumption for the year. It does not utilise earnings per share as a performance measure and does not contemplate consideration of any dividends in the short to medium term given that all efforts are currently being devoted to obtaining value for the Group's assets and where possible building the business and partnerships to establish self-sustaining revenue streams. The Company is of the view that any adverse movement in the Company's share price should not be taken into account in assessing the performance of employees other than the Interim CEO where appropriate.

Dated at Melbourne this 28th day of August, 2014.

This report is made with a resolution of the Directors.

Mr I Kirkwood
Chairman

LEAD AUDITOR'S INDEPENDENCE DECLARATION

Under Section 307C of the *Corporations Act 2001*

KPMG

To the Directors of Avexa Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014, there have been:

(i) No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul J McDonald

Paul J McDonald
Partner

Melbourne
28 August 2014

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2014

		Consolidated	
	Note	2014 $'000	2013 $'000
Revenue from operating activities	4	**295**	617
Other revenue	4	**-**	452
Contract research and development expenses	5(a)	**(493)**	(286)
Employee expenses		**(1,097)**	(1,206)
Share-based payment expense	19	**37**	(53)
Depreciation expense	5(b)	**(15)**	(164)
Loss on disposal of plant and equipment	5(b)	**-**	(88)
Consulting expenses		**(104)**	(133)
Occupancy expenses		**(66)**	(1,323)
Professional services expenses		**(374)**	(445)
Travel and accommodation expenses		**(28)**	(37)
Raw materials and consumables expenses		**-**	(3)
Asset management expenses		**(20)**	(38)
Insurance expenses		**(95)**	(98)
Corporate administration expenses		**(98)**	(139)
Intellectual property expenses		**(392)**	(555)
Other expenses	5(c)	**(12)**	(64)
Share of net loss of equity accounted associate	12	**(104)**	-
Results from operating activities		**(2,566)**	(3,563)
Net finance (expense)/income	32	**(331)**	591
Income tax expense	7	**-**	(5)
Loss from operations for the period		**(2,897)**	(2,977)
Loss attributable to owners of the Company	19	**(2,897)**	(2,977)
Other comprehensive income			
Items that may be reclassified subsequently to the income statement			
Net change in fair value of available for sale financial assets	32	**-**	(566)
Foreign currency translation reserve		**(225)**	-
Total comprehensive (loss)/income for the period attributed to owners of the Company		**(3,122)**	(3,543)
Earnings per share			
Basic earnings per share (cents per share)	22	**(0.33)**	(0.35)
Diluted earnings per share (cents per share)	22	**(0.33)**	(0.35)

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 24 to 47.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2014

	Note	Issued Capital $'000	Accumulated Losses $'000	Fair Value Reserve $'000	Foreign Currency Translation Reserve $'000	Total Equity $'000
		Consolidated				
Opening balance as at 1 July 2013		182,523	(168,853)	(131)	-	13,539
Comprehensive (loss)/income for the period						
Loss	19	-	(2,897)	-	-	(2,897)
Total other comprehensive income		-	-	-	(225)	(225)
Total comprehensive income for the period		**-**	**(2,897)**	**-**	**(225)**	**(3,122)**
Transactions with owners, recorded directly in equity						
Transfer from fair value reserve		-	-	131	-	131
Issue of ordinary shares pursuant to Share Purchase Plan		1,014	-	-	-	1,014
Transaction costs relating to issue of ordinary shares		(54)	-	-	-	(54)
Equity settled share-based payment transactions		-	(37)	-	-	(37)
Total transactions with owners		960	(37)	131	-	1,054
Closing balance as at 30 June 2014	18,19	**183,483**	**(171,787)**	**-**	**(225)**	**11,471**

For the year ended 30 June 2013

	Note	Issued Capital $'000	Accumulated Losses $'000	Fair Value Reserve $'000	Foreign Currency Translation Reserve $'000	Total Equity $'000
		Consolidated				
Opening balance as at 1 July 2012		182,523	(165,929)	435	-	17,029
Comprehensive income/(loss) for the period						
Loss	19	-	(2,977)	-	-	(2,977)
Total other comprehensive income		-	-	(566)	-	(566)
Total comprehensive income for the period		**-**	**(2,977)**	**(566)**	**-**	**(3,543)**
Transactions with owners, recorded directly in equity						
Issue of ordinary shares pursuant to placement		-	-	-	-	-
Issue of ordinary shares pursuant to Share Purchase Plan		-	-	-	-	-
Equity settled share-based payment transactions		-	53	-	-	53
Total transactions with owners		-	53	-	-	53
Closing balance as at 30 June 2013	18,19	**182,523**	**(168,853)**	**(131)**	**-**	**13,539**

Amounts disclosed in the statement of changes in equity are stated net of tax.

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 24 to 47.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		Consolidated	
	Note	**2014 $'000**	**2013 $'000**
Current assets			
Cash and cash equivalents	9	**3,362**	11,869
Receivables	10	**1,828**	1,418
Investments	11	**154**	659
Other assets	13	**46**	47
Total current assets		**5,390**	13,993
Non-current assets			
Equity accounted investments	12	**4,158**	-
Receivables	10	**2,352**	-
Intangible assets	14	**-**	-
Plant and equipment	15	**23**	20
Total non-current assets		**6,533**	20
Total assets		**11,923**	14,013
Current liabilities			
Trade and other payables	16	**254**	279
Employee benefit provisions	17	**185**	183
Total current liabilities		**439**	462
Non-current liabilities			
Employee benefit provisions	17	**13**	12
Total non-current liabilities		**13**	12
Total liabilities		**452**	474
Net assets		**11,471**	13,539
Equity			
Share capital	18	**183,483**	182,523
Fair value reserve		**-**	(131)
Foreign currency translation reserve		**(225)**	-
Accumulated losses	19	**(171,787)**	(168,853)
Total equity		**11,471**	13,539

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 24 to 47.

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2014

		Consolidated	
	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**15**	384
Cash payments in the course of operations		**(2,667)**	(4,262)
Research and development incentive		**617**	558
Interest received		**347**	639
Net cash used in operating activities	21	**(1,688)**	(2,681)
Cash flows from investing activities			
Payments for property, plant and equipment		**(20)**	(10)
Payments for equity investments		**(4,470)**	-
Proceeds from disposal of listed equity instruments		**-**	2,422
Working capital loan to Coal Holdings USA, LLC		**(3,159)**	(494)
Proceeds from disposal of assets		**2**	62
Net cash used in investing activities		**(7,647)**	1,980
Cash flows from financing activities			
Proceeds from issue of shares pursuant to Share Purchase Plan		**1,014**	-
Share issue costs		**(54)**	-
Net cash used in financing activities		**960**	-
Net (decrease)/increase in cash held		**(8,375)**	(701)
Cash at the beginning of the financial year		**11,869**	12,570
Effect of exchange rate fluctuations on cash held		**(132)**	-
Cash and cash equivalents at the end of the financial year	9	**3,362**	11,869

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 24 to 47.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2014

1. Reporting Entity

Avexa Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Suite 8, Level 1, 61–63 Camberwell Road, Hawthorn East, Victoria 3123. The consolidated financial statements of the Company as at 30 June 2014 comprise the Company and its subsidiary entities (together referred to as the 'Group' and individually as 'Group entities'). There have been two principal activities for the Group during the course of the financial year. Firstly, the research and development, for commercialisation, of anti-infective pharmaceutical programs and projects and secondly, the prosecution of an investment in the North Pratt Coal Mine as a funding vehicle for the Company's research projects.

2. Basis of Preparation

(a) Statement of Compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

The consolidated financial statements were approved by the Board of Directors on 28 August 2014. The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded off to the nearest thousand dollars, unless otherwise stated.

(b) Basis of Measurement and Presentation Currency

The consolidated financial statements are presented in Australian dollars and have been prepared on the historical cost basis aside from available for sale assets which are measured at fair value.

Going Concern Basis of Accounting

In preparing the financial statements, the Directors have made an assessment of the ability of the consolidated entity to continue as a going concern, which contemplates the continuity of normal operations, realisation of assets and settlement of liabilities in the ordinary course of business and at the amounts stated in the financial report. The Company's strategy in this regard is to maintain sufficient working capital to continue with its operations in the 2015 financial year and beyond, until such time as self-sustaining revenue streams are realised.

Following an investment and loan to Coal Holdings USA LLC (CHUSA) in February 2014, the Company's cash reserves have been significantly reduced. The ability of the consolidated entity to meet operating cash requirements for the next 12 months and beyond is dependent on cash flows being generated from the successful execution of the business plan of CHUSA, which is dependent on a number of factors that may or may not occur as expected, including assumptions relating to start-up costs, sales volumes, coal prices, working capital requirements and regulatory compliance. In addition, in order to meet the forecast operating cash requirements, the Company may need to raise funds from other sources, which may include raising capital, securing debt facilities or monetising the Group's existing portfolio of intangible assets.

As a result of these factors, there exists a material uncertainty regarding the ability of the consolidated entity to continue as a going concern. However after making enquiries, and considering the uncertainties described, the Directors have a reasonable expectation that the consolidated entity will have adequate resources to continue to meet its obligations as and when they fall due. For these reasons, they continue to adopt the going concern basis in preparing the consolidated financial statements.

(c) Use of Estimates and Judgements

The preparation of consolidated financial statements conforms with Australian Accounting Standards which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There have been significant judgements made during the current financial year in the application of Australian Accounting Standards that have had or are expected to have a significant effect on the consolidated financial statements as detailed below and also in Note 2(b). Based on the information available at the time of signing the financial report, the Company is still of the view that a full provision for impairment is still required, as the recoverable amount of the intangible asset, following decisions taken by the Board leading up to 30 June 2010, cannot reasonably be estimated. Should future decisions and actions in regard to ATC result in the Directors of the Company having the opinion that some value has been restored to this intangible asset, the existing provision for impairment may be reversed to the extent that the Directors believe to be prudent and that value will be reflected in the Company's balance sheet. Refer to Note 14 for further detail.

The Group reviews the carrying amounts of its equity accounted investments and loans to associates to determine whether there is any indication that those assets are impaired (refer Note 12). In making the assessment for impairment, the recoverable amount is measured as either the higher of their fair value less costs to sell or value in use. The determination of recoverable amount requires the estimation and judgement, including, amongst other things, the current status of the pre-production phase of the business plan, the ability to raise additional finance, should it be required and the long term projected cash flows from the project. An inability of CHUSA to successfully implement its business plan (or a material change in the key assumptions contained therein) may result in impairment of the Company's investment in CHUSA and/or the loan provided to CHUSA in future periods. (Refer Note 12).

3. Significant Accounting Policies

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

The new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to the Group that have been adopted for the current year end are:

AASB 10 *Consolidated Financial Statements*

AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*

AASB 11 *Joint Arrangements*

AASB 12 *Disclosure of Interests in Other Entities*

AASB 13 *Fair Value Measurement*

ASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*

AASB 119 *Employee Benefits* (September 2011)

AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* (September 2011).

The application of the new and revised standards has not had a material impact on the disclosures or on the amounts recognised in the consolidated financial statements. The Group has elected to early adopt AASB 2013-3 '*Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*'. (Refer to Note 3(t)).

(a) Revenue Recognition

Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction as at reporting date.

Rental Income

Rental income from sub-leasing arrangements is recognised in profit or loss on a straight-line basis over the term of the lease.

Government Grants

Conditional government grants are recognised initially as deferred income when there is a reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

An unconditional grant is recognised in profit or loss as other income when the grant becomes receivable.

(b) Financial Instruments

Non-derivative financial instruments comprise receivables, cash and cash equivalents, trade and other payables and financial assets at fair value through profit and loss and available for sale assets. Non-derivative financial instruments are recognised initially at fair value and, subsequent to initial recognition, are measured as described below.

A financial instrument is recognised if the Group becomes a contractual party to the contractual provisions of the instrument. Financial instruments are de-recognised if the Group's contractual rights to the cash flows from the financial assets expire or are transferred to another party without retaining control or substantially all the risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at a trade date, i.e. the date the Group commits itself to purchase or sell the asset. Financial liabilities are de-recognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

The Group has the following non-derivative financial assets: financial assets at fair value through profit and loss and available-for-sale assets.

3. Significant Accounting Policies continued

(b) Financial Instruments continued

Financial Assets at Fair Value through Profit and Loss

A financial asset is classified as at fair value through profit and loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit and loss if the Group manages such investments and make purchases and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit and loss when incurred.

Financial assets at fair value through profit and loss are measured at fair value, and changes therein are recognised in profit and loss.

Financial assets designated at fair value through profit and loss comprise equity securities that otherwise would have been classified as available for sale.

Available-For-Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit and loss.

Available-for-sale financial assets comprise equity securities.

Cash and cash equivalents comprise cash balances and call or term deposits. Accounting for finance income and costs are discussed in Note 3(c).

(c) Finance Income and Costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, gains on hedging instruments that are recognised in profit or loss and reclassifications of amounts previously recognised in other comprehensive income. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss and reclassifications of amounts previously recognised in other comprehensive income.

(d) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Foreign Currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are retranslated to Australian dollars using the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Australian dollars at the exchange rate at the date that the fair value was determined.

The assets and liabilities of foreign Group entities are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in other comprehensive income.

(f) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Property, Plant and Equipment

(i) Owned Assets

The Group holds no property. Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The costs of day-to-day servicing of plant and equipment are recognised in profit or loss as incurred. The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the asset if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably.

(ii) Leased Assets

Leases on terms by which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. The Group has no finance leases. Leases other than finance leases are classified as operating leases.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

- Plant and equipment 2.5 – 10 years

Depreciation methods, useful lives and residual values are reassessed annually at the reporting date.

(h) Intangible Assets

Intangible assets acquired by the Group which satisfy the asset recognition criteria set out in AASB 138 *Intangible Assets*, are measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets which are considered to have a finite life are amortised over their estimated useful life. In respect of acquired licences/marketing rights, amortisation commences upon the asset becoming available for use, based on commercialisation of the licensed or marketed product.

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and short term deposits with an original maturity of three months or less.

3. Significant Accounting Policies continued

(j) Impairment

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The carrying amounts of the Group's assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

An impairment loss in respect of an asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the effective original interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Aside from impairment of goodwill, an impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

The carrying amounts for non-financial assets are reviewed each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated and an impairment loss recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is determined as the greater of its value in use and its fair value less costs to sell. Value in use is assessed using discounted cash flow analysis. When determining fair value less costs to sell, Avexa takes into account information from recent market transactions and other available market-based information.

(k) Employee Benefits

(i) Long Term Service Benefits

The Company's net obligation in respect of long term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods, plus related on-costs. That benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on AA credit-rated (Commonwealth Government) bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed using the projected unit credit method.

(ii) Share-based Payment Transactions

The Avexa Employee Share Option Plan allows eligible employees to acquire shares in the Company. The grant date fair value of options granted to employees is recognised as an employee expense with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met. The fair value of the options granted is calculated using a binomial model taking into account the terms and conditions upon which the options were granted.

(iii) Wages, Salaries, Annual Leave and At-Risk Performance Incentives

Liabilities for employee benefits for wages, salaries, annual leave and performance incentives represent present obligations resulting from employees' services provided up to reporting date and are calculated at undiscounted amounts based on compensation wage and salary rates that the Company expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

(iv) Superannuation

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due. The Company has no defined benefit pension fund obligations.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and when appropriate, the risks specific to the liability.

(m) Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(n) Research and Development

Research expenditure undertaken with the prospect of gaining new scientific or technical knowledge or understanding is expensed in profit or loss as incurred. Development expenditure is capitalised only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable, and completion of development is intended.

(o) Segment Reporting

A segment is a distinguishable component of a company engaged in providing products or services within a particular business sector or geographical environment. The Group determines and presents operating segments based on information that internally is provided to and used by the interim CEO, who is the Group's chief operating decision-maker. The Group operates within two business segments comprising anti-infective research and development and investments. Although the Group's clinical trials are conducted in a number of countries there is no meaningful way of presenting geographically segmented results, particularly given these operations do not currently generate revenue. Discrete financial information about each of these operating businesses is reported to the interim CEO and his management team on at least a monthly basis.

(p) Earnings Per Share

The Group presents basic and diluted earnings per share for its ordinary shares. Basic earnings per share (EPS) is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding for the period. Diluted EPS is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, including share options granted to employees and to third parties.

(q) Share Capital

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any associated tax benefit.

(r) Fair Value Reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(s) Equity Accounted Investments

Associates are those entities where the Group has significant influence, but not control or joint control, over the financial and operating policies. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes any goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of profit or loss and other comprehensive income, and its share of post-acquisition movements in reserves is recognised in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable reduce the carrying amount of the investment.

(t) New Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2014 have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

4. Revenue

	Consolidated	
	2014 $'000	2013 $'000
Research and development incentive	**295**	617
Total revenue from operating activities	**295**	617
Lease income	**-**	452
Total other revenue	**-**	452

5. Profit Before Related Income Tax Expense

	2014 $'000	2013 $'000
(a) Individually Material Items Included in Profit Before Related Income Tax Expense		
Contract research and development expenditure	**493**	286
Direct research and development expenditure	**880**	1,382
Research and development	**1,373**	1,668
(b) Profit Before Related Income Tax Expense Has Been Arrived at After Charging the Following Items		
Depreciation of plant and equipment	**15**	164
Loss on disposal of plant and equipment	**-**	88
Amounts recognised in provisions for employee entitlements (Note 26)	**99**	89
Superannuation payments to defined contribution plans	**79**	85
(c) Other Expenses		
Advertising and promotion	**103**	64
Workplace administration	**28**	29
Foreign exchange (gains)/losses	**(128)**	(67)
Other expenses	**9**	38
Total other expenses	**12**	64

6. Auditors' Remuneration

	2014 $	2013 $
Audit services:		
Auditors of the Company – KPMG	**88,500**	71,450
Total audit services	**88,500**	71,450
Other services:		
Tax compliance and advisory services – KPMG	**17,210**	31,365
Other assurance services – overseas KPMG firm[1]	**57,037**	8,400
Total other services	**74,247**	39,765

1. Other assurance services include fixed asset verification procedures.

7. Income Tax

	Consolidated	
	2014 **$'000**	**2013** **$'000**
Current tax expense (benefit) – current year	**-**	5
Deferred tax expense – continuing operations	**-**	-
Total income tax expense (benefit) in income statement attributable to continuing operations	**-**	-

Numerical reconciliation between tax expense and pre-tax net loss:		
Loss before tax – continuing operations	**(2,897)**	(2,972)
Income tax using the domestic corporation tax rate of 30% (2013: 30%)	**(869)**	(892)
Change in unrecognised temporary differences	**55**	(5)
Increase in income tax expense due to:		
Non-deductible expenses	**157**	289
Share of net loss of equity accounted investment	**31**	-
Deferred tax assets not brought to account	**575**	585
Research and development allowance	**108**	226
Sundry	**-**	(4)
Decrease in income tax expense due to:		
Items deductible for tax purposes	**(57)**	(194)
Research and development allowance	**-**	-
Income tax expense on pre-tax net loss	**-**	5

Unused tax losses for which no deferred tax asset has been recognised	**145,181**	142,499
Potential tax benefit at 30%	**43,554**	42,749

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available from which the Company can utilise the benefits. There was no deferred tax recognised directly in equity.

8. Dividend Franking Account

The Company has no franking credits at reporting date.

9. Cash and Cash Equivalents

	2014 **$'000**	**2013** **$'000**
Cash at bank and on hand	**694**	132
Bank short term deposits	**2,668**	11,737
Total cash assets	**3,362**	11,869

Financing Arrangements

At 30 June 2014 the Company had a credit card facility of $150,000 of which nil was used as at 30 June 2014 (2013: $nil). A security bond of $30,822 was provided on a Bank Guarantee on the Company's new premises. Interest on cash at bank is credited at prevailing market rates. The weighted average interest rate at reporting date was 2.8 per cent (2013: 4.4 per cent).

10. Receivables

	Consolidated 2014 $'000	2013 $'000
Current		
Trade and other receivables	**133**	240
Research and development incentives and other tax receivables	**295**	617
Working capital loan – Coal Holdings USA, LLC[1]	**1,400**	561
Total current receivables	**1,828**	1,418
Non-current		
Working capital loan – Coal Holdings USA, LLC[1]	**2,352**	-
Total non-current receivables	**2,352**	-

1. The working capital loan to Coal Holdings USA, LLC (CHUSA) was secured by a fixed and floating charge over the assets of CHUSA and its subsidiary company, North Pratt Coal Holdings LLC.

11. Investments

	2014 $'000	2013 $'000
Current		
Financial assets classified as held for trading	**-**	40
Financial assets classified as available for sale	**154**	619
	154	659

Investments in equity instruments are categorised as Level 1 within the fair value hierarchy and are valued using market observable rates, being quoted ASX stock prices.

12. Investments Accounted for Using the Equity Method

Investments in Associates and Joint Ventures

The Group accounts for investments in associates and joint venture entities using the equity method and has the following investment:

				Percentage of Ownership Interest Held at End of the Financial Year		Contribution to Net Loss	
Name of Entity	**Principal Activities**	**Country**	**Reporting Date**	**2014 %**	**2013 %**	**2014 $'000**	**2013 $'000**
Coal Holdings USA LLC[1]	Coal Mining Operations	USA	30 June	**30.0**	-	**(104)**	-

	2014 $'000	2013 $'000
Results of associates		
Shares of associate's loss before income tax	**(104)**	-
Share of associate's income tax expense	**-**	-
Share of net loss of associate accounted for using the equity method	**(104)**	-
Movements in carrying amounts of investments		
Balance at 1 July	**-**	-
Investments in associates acquired during the year	**4,262**	-
Share of net profit/(loss) of associate accounted for using the equity method	**(104)**	-
Less distributions from associate	**-**	-
Balance at 30 June	**4,158**	-

1. The above balances relating to Coal Holdings USA LLC have been reported on a provisional basis, and in accordance with the relevant accounting standards, are expected to be finalised prior to Avexa's 30 June 2015 year-end balance date.

	Consolidated	
	2014 $'000	**2013 $'000**
Summary of profits and loss of the associate on a 100% basis		
Revenue	**(347)**	-
Other comprehensive income	**-**	-
Total comprehensive income	**(347)**	-
Net profit/(loss) after tax	**(347)**	-
Summary of balance sheet of the associate on a 100% basis		
The assets and liabilities of the associate is:		
Current assets	**3,349**	-
Non-current assets	**16,371**	-
Total assets	**19,720**	-
Current liabilities	**1,133**	-
Non-current liabilities	**5,492**	-
Total liabilities	**6,625**	-
Net assets	**13,095**	-

12. Investments Accounted for Using the Equity Method continued

Impairment Testing

The cash flow from the successful execution of the business plans of CHUSA are dependent on a number of factors that may or may not occur as expected, including assumptions relating to start-up costs, sales volumes, coal prices, working capital requirement and regulatory compliance. The pre-production phase has not yet been completed and CHUSA may require additional funding to meet the capital costs of this phase of the business plan. The source of this funding, should it be required, has not yet been determined.

The Directors have reviewed the recoverable amount of the investment in CHUSA, taking into consideration the current status of the pre-production phase of the business plan, the ability to raise additional finance, should it be required, the long term projected cash flows from the project, and the estimated fair value of the equity investment at 30 June 2014.

An inability of CHUSA to successfully implement its business plan (or a material change in the key assumptions contained therein) may result in impairment of the Company's investment in CHUSA and/or the loan provided to CHUSA in future periods.

13. Other Assets

	Consolidated	
	2014 $'000	**2013 $'000**
Current		
Pre-payments	**46**	47

14. Intangible Assets

	2014 $'000	**2013 $'000**
North American marketing licence for apricitabine (ATC) – at cost	**25,762**	25,762
Less: provision for impairment	**(25,762)**	(25,762)
Total marketing licence and intangibles	**-**	-
Intellectual property (at cost)	**12,000**	12,000
Less: accumulated amortisation	**(12,000)**	(12,000)
Total intangible assets	**-**	-

Following a general meeting of shareholders in July 2010, the new Directors of the Company initiated an independent review of the Company's assets including apricitabine (ATC), to which the internally generated, indefinite life intangible asset relates. Should future decisions and actions in regard to ATC result in the Directors of the Company having the opinion that some value has been restored to this intangible asset, the existing provision for impairment may be reversed to the extent that the Directors believe to be prudent and that value will be reflected in the Company's balance sheet.

For the financial year 2014, the Directors still consider the intangible assets nil valuation is appropriate.

15. Plant and Equipment

	Consolidated	
	2014 $'000	2013 $'000
Plant and equipment (at cost)	**436**	438
Less: accumulated depreciation	**(413)**	(418)
Total plant and equipment	**23**	20

Reconciliation – Plant and Equipment

	2014 $'000	2013 $'000
Carrying amount at the beginning of the financial year	**20**	325
Additions	**20**	10
Disposals	**(2)**	(151)
Depreciation	**(15)**	(164)
Carrying amount at the end of the financial year	**23**	20

16. Trade and Other Payables

	2014 $'000	2013 $'000
Trade creditors and accruals	**254**	279

The Group's exposure to currency and liquidity risk related to trade creditors and accruals is disclosed in Note 23.

17. Employee Benefits Provisions

	2014 $'000	2013 $'000
Current		
Employee benefits (Note 26)	**185**	183
Non-current		
Employee benefits (Note 26)	**13**	12

18. Issued Capital

Terms and Conditions of Ordinary Shares

Holders of ordinary shares are entitled to one vote per share at shareholders' meetings and to receive any dividends as may be declared. In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation. Ordinary shares have no par value.

Options to Acquire Ordinary Shares

During the financial year nil (2013: nil) options were issued to employees under the Avexa Employee Share Option Plan, nil (2013: nil) options were issued to Directors. 4,190,000 (2013: 3,080,000) options held by employees or Directors lapsed or were forfeited and nil (2013: nil) were exercised. Movements in options for the current and prior year are provided in the following tables.

2014 Options	**Number of Options at Beginning of Year**	**Options Granted**	**Options Lapsed/Forfeited**	**Options Exercised**	**Number of Options at End of Year**
Total employee options (Note 26)	190,000	-	(190,000)	-	-
Total Directors options	4,000,000	-	(4,000,000)	-	-
Total options	**4,190,000**	**-**	**(4,190,000)**	**-**	**-**

2013 Options	**Number of Options at Beginning of Year**	**Options Granted**	**Options Lapsed/Forfeited**	**Options Exercised**	**Number of Options at End of Year**
Total employee options (Note 26)	3,270,000	-	(3,080,000)	-	190,000
Total Directors options	4,000,000	-	-	-	4,000,000
Total options	**7,270,000**	**-**	**(3,080,000)**	**-**	**4,190,000**

Shares

	2014		**2013**	
	$'000	**Number**	**$'000**	**Number**
925,650,566 (2013: 847,688,779) ordinary shares, fully paid	**182,523**	**847,688,779**	182,523	847,688,779
Movements in issued capital during the year were as follows:				
Balance at the beginning of the financial year	**182,523**	**847,688,779**	182,523	847,688,779
Issue of shares pursuant to Share Purchase Plan	**1,014**	**77,961,787**	-	-
Issue of shares pursuant to placement	**-**	**-**	-	-
Transaction costs relating to Rights Issue and placements	**(54)**	**-**	-	-
Issued capital at the end of the financial year	**183,483**	**925,650,566**	182,523	847,688,779

19. Accumulated Losses

	Consolidated	
	2014 $'000	**2013 $'000**
Accumulated losses at the beginning of the financial year	**(168,853)**	(165,929)
Share-based payment expense	**(37)**	53
Net loss attributable to owners of the Company	**(2,897)**	(2,977)
Accumulated losses at the end of the financial year	**(171,787)**	(168,853)

20. Commitments

(a) Non-cancellable Operating Lease Expense Commitments

Future operating lease commitments not provided for in the financial statements and payable:

	2014 $'000	**2013 $'000**
– Within one year	**98**	63
– One year or later and no later than five years	**135**	204
– Greater than five years	**-**	-
	233	267

The principal operating lease commitment other than immaterial office equipment leases was the Company's new premises lease agreement which for the 2015 financial year represents a commitment of $83,678.

(b) Cancellable Research and Development Commitments

	2014 $'000	**2013 $'000**
– Within one year	**334**	20
– One year or later and no later than five years	**-**	-
	334	20

Amounts reflected in the above table represent contracted commitments to undertake various scientific studies as part of the development of the Company's project portfolio. Each commitment is cancellable without penalty subject to notice periods of up to three months.

21. Notes to the Statement of Cash Flows

Cash as at the end of the financial year in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	Consolidated	
	2014 $'000	**2013 $'000**
Cash at bank and on hand	**694**	132
Bank short term deposits	**2,668**	11,737
Cash assets (Note 9)	**3,362**	11,869

Loss after income tax	**(2,897)**	(2,977)
Add non-cash and non-operating items:		
– Depreciation and loss on disposal of plant and equipment	**15**	252
– Share-based payment expense	**(37)**	53
– Foreign exchange gains/(losses)	**82**	(67)
– Investment loss on revaluation	**-**	32
– Impairment	**637**	-
– Share of net loss of investment in associate	**104**	-
Change in working capital and provisions		
– (Increase)/decrease in receivables	**429**	(34)
– (Increase)/decrease in other assets	**1**	177
– Increase/(decrease) in employee benefits	**3**	89
– Increase/(decrease) in deferred income	**-**	(78)
– Increase/(decrease) in payables	**(25)**	(5)
– Increase/(decrease) in other liabilities	**-**	(123)
Net cash used in operating activities	**(1,688)**	(2,681)

Non-cash Financing and Investing Activities

There have been no non-cash financing and investing transactions during the 2014 financial year (2013: nil) which have had a material effect on assets and liabilities of the Group.

22. Earnings Per Share

	Consolidated	
	2014 $'000	2013 $'000
Basic earnings per share (cents per share)	**(0.33)**	(0.35)
Diluted earnings per share (cents per share)	**(0.33)**	(0.35)

(a) Earnings Reconciliation

Net loss:		
Basic earnings	**(2,897)**	(2,977)
Diluted earnings	**(2,897)**	(2,977)

(b) Weighted Average Number of Shares

	Number	Number
Number for basic earnings per share:		
Ordinary shares	**888,058,033**	847,688,779
Number for diluted earnings per share:		
Ordinary shares	**888,058,033**	847,688,779
Effect of share options on issue	**-**	-
Weighted average number of ordinary shares (diluted)	**888,058,033**	847,688,779

23. Financial Instruments Disclosure and Financial Risk Management

The Group has exposure to market, credit and liquidity risks from the use of financial instruments. This note presents information about the Group's exposure to each of these risks, its objectives, policies and processes for measuring and managing risk. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group has adopted a Strategic Risk Management Framework through which it manages risks and aims to develop a disciplined and constructive control environment and action plans for risks that cannot be effectively managed through the use of controls. The Audit Committee oversees how management monitors compliance with the Company's Strategic Risk Management Framework in relation to the changing risks faced by the Group.

(a) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the financial return. No more than $2.7 million of the Group's cash resources is permitted to be invested in securities or investments other than bank and term deposits without approval by the shareholders at an AGM. In respect of listed company investments, the holding is reviewed by the Audit Committee if the market price falls by more than 10 per cent below the initial acquisition cost.

(i) Foreign Currency Risk

The Company has contracts denominated in foreign currencies, predominantly in US dollars and Great Britain Pounds Sterling, and may enter into forward exchange contracts where appropriate in light of anticipated future purchases and sales, conditions in foreign markets, commitments from customers and past experience and in accordance with Board-approved limits. Note 3(e) sets out the accounting treatments for such contracts. There were no hedged amounts payable or receivable in foreign currencies at reporting date (2013: nil).

In relation to the investment in Coal Holdings USA LLC, (CHUSA), the Company has invested US$4 million in CHUSA and loaned US$3.4 million as at 30 June 2014. Another US$0.6 million was loaned in July 2014. These amounts are unhedged.

23. Financial Instruments Disclosure and Financial Risk Management continued

(a) Market Risk continued

(i) Foreign Currency Risk continued

At reporting date the Company had the following exposures to foreign currency, converted to thousands of Australian dollars:

	2014			2013		
	GBP $'000	**USD $'000**	**Euros $'000**	**GBP $'000**	**USD $'000**	**Euros $'000**
Bank accounts	**23**	**642**	**-**	21	37	-
Receivables	**-**	**3,706**	**-**	-	561	-
Payables	**-**	**20**	**-**	-	-	-
Gross balance sheet exposure	**23**	**4,368**	**-**	21	598	-

Foreign Currency Sensitivity Analysis

A 10 per cent strengthening or weakening of the Australian dollar applied against the Gross balance sheet exposure in the above table in respect of the above currencies at 30 June 2014 would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. A sensitivity of 10 per cent has been selected as this is considered reasonable taking in to account the current level of exchange rates and the volatility observed both on a historical basis and on market expectations for future movements. The analysis is performed on the same basis for 2013. There is no impact on equity.

2014

	Equity		Profit and Loss	
Exposure	**Strengthening $'000**	**Weakening $'000**	**Strengthening $'000**	**Weakening $'000**
Gross balance sheet exposure	(279)	342	(399)	488

2013

	Equity		Profit and Loss	
Exposure	**Strengthening $'000**	**Weakening $'000**	**Strengthening $'000**	**Weakening $'000**
Gross balance sheet exposure	(38)	46	(54)	66

The following significant exchange rates applied during the financial year:

	Average Rate		Reporting Date Spot Rate	
Currency	**2014**	**2013**	**2014**	**2013**
GBP	**0.57**	0.65	**0.55**	0.61
USD	**0.92**	1.03	**0.94**	0.93
Euro	**0.68**	0.79	**0.69**	0.71

(ii) Interest Rate Risk

The effective weighted average interest rate used to discount the Long Service Leave provision is 3.2 per cent (2013: 4.1 per cent). Interest earned on cash at bank is determined in accordance with published bank interest rates. The Company's exposure to interest rate risk is confined to cash assets, the effective weighted average interest rate for which is set out below.

	Note	Effective Interest Rate %	Floating Interest Rate $'000	3 Months or Less $'000	Non-interest Bearing $'000	Total $'000
Financial assets:						
Cash assets – at 30 June 2014	**9**	**2.8**	**316**	**2,381**	**665**	**3,362**
Cash assets – at 30 June 2013	9	4.4	253	11,557	59	11,869

An increase or decrease of 0.50 per cent in interest rates applied for 12 months to the cash balances at reporting date would have increased or decreased profit or loss by $16,778 (2013: $59,344), assuming that all other variables, including foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

	2014 Profit and Loss		2013 Profit and Loss	
	Strengthening $'000	Weakening $'000	Strengthening $'000	Weakening $'000
Cash at bank – variable interest rate:				
AUD	**17**	**(17)**	59	(59)

(b) Credit Risk

Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted. For financial assets, the credit risk exposure of the Group is the carrying amount of the asset net of any provision for doubtful debts. For the Group, credit risk arises from the working capital loan to Coal Holdings USA, LLC (CHUSA), which is secured by the assets of CHUSA, and from interest and capital on deposits with financial institutions.

(i) Investments (Including Cash)

The Group's Cash Management and Treasury Policy limits the maximum proportion of Avexa's aggregate gross cash resources that can be placed with or invested in any one counterparty, having regard to the credit risk assigned to that counterparty unless the Board determines otherwise. No more than $2.7 million of the Group's cash resources is permitted to be invested in securities or investments other than bank and term deposits without approval by the shareholders at an AGM. In respect of listed company investments the holding is reviewed by the Audit Committee if the market price falls by more than 10 per cent below the initial acquisition cost.

(ii) Receivables

The Group undertakes due diligence prior to entering into any collaboration, co-development or licensing agreement with a counterparty that exposes the Group to credit risk. The Group's exposure to credit risk from receivables is shown below. No amounts are past due and/or impaired at balance date.

	Note	3 Months or Less $'000	Greater Than 3 Months $'000	Greater Than 1 Year $'000	Total $'000
Financial assets:					
Receivables – at 30 June 2014	**10**	**428**	**1,400**	**2,352**	**4,180**
Receivables – at 30 June 2013	10	240	1,178	-	1,418

23. Financial Instruments Disclosure and Financial Risk Management continued

(c) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to managing liquidity is to ensure that it will maintain sufficient liquidity to meet its liabilities when due.

The liquidity risk profile will be impacted by the Company's decision to make a strategic investment in Coal Holdings USA LLC. Refer to Note 2(b) *Going Concern basis of accounting*.

The Company has no lines of credit other than a credit card facility for $150,000 and a Bank Guarantee of $30,822. The Company manages its liquidity risk using existing cash reserves managed in accordance with a Cash Management and Treasury Policy. Under this policy, sufficient liquidity to meet day-to-day operating requirements is maintained in interest-bearing operating, 'at-call' and term bank accounts. Cash balances are prepared daily and cash requirements monitored on weekly, month-end reporting and annual budget/forecast cycles.

At reporting date, the Group had the following financial liability exposures.

	Note	3 Months or Less $'000	Greater Than 3 Months $'000	Total $'000
Financial liabilities:				
Creditors and other accruals – at 30 June 2014	**16**	**254**	**-**	**254**
Creditors and other accruals – at 30 June 2013	16	279	-	279

(d) Net Fair Values of Financial Assets and Liabilities

Net fair values of financial assets and liabilities are determined by the Group on the following bases:

(i) for monetary financial assets and financial liabilities not readily traded in an organised financial market, values are determined by valuing them at the value of contractual cash flow amounts due from customers and payable to suppliers discounted as appropriate for settlements beyond 12 months;

(ii) the carrying amounts of bank balances and deposits, trade debtors and accounts payable expected to be payable within 12 months of reporting date approximate the net fair value.

At reporting date there were no material differences between carrying values and fair values.

(e) Capital Management

The Board's policy is to maintain a sufficient capital base so as to sustain investor, creditor and market confidence and to facilitate the future development of the business. As noted in Note 2 (b), in order to meet forecast operating cash requirements, the Company may need to raise funds from other sources which may include raising capital or securing debt facilities.

24. Related Parties

Disclosures of compensation policies, service contracts and details of individual Directors' and Executives' compensation are included in the Remuneration Report section of the Directors' Report on pages 10 to 18.

Directors and Key Management Personnel Compensation

The Directors and Key Management Personnel compensation included in 'employee expenses' are as follows:

Nature of Compensation	2014 $'000	2013 $'000
Short term employee benefits	**718**	685
Performance benefits	**13**	79
Other short term benefits	**-**	-
Post-employment benefits	**47**	65
Termination benefits	**-**	-
Share-based payments	**-**	53
Consulting fees	**29**	-
Total compensation	**807**	882

Transactions and Commitments with Other Related Parties

	Consolidated	
	2014 $'000	2013 $'000
Loans to associates and related interest	**3,752**	561

The Group is committed to providing an additional (US$590,000) in loans to Coal Holdings USA, LLC. The loan has been provided on normal commercial terms and conditions being an interest rate of 6 per cent.

As described in Note 10, the working capital loan to Coal Holdings USA, LLC (CHUSA) is secured by a fixed and floating charge over the assets of CHUSA and its subsidiary company, North Pratt Coal Holdings LLC.

Outstanding Balances with Other Related Parties

The following balances are outstanding at the reporting date in relation to transactions with related parties other than KMPs:

	2014 $'000	2013 $'000
Other receivables	**86**	-
Loans to associates	**3,752**	561

No provision for doubtful debts has been raised against amounts receivable from other related parties.

Options and Rights Over Equity Instruments Granted as Compensation

No options over ordinary shares were granted as compensation during the financial year. There were no options exercised during the financial year nor were there any alterations or modifications to existing terms. The factors and assumptions used in determining the fair value on grant date of options issued in the previous financial year are detailed in the Remuneration Report.

Loans and Other Transactions with Key Management Personnel

There were no loans made to Directors or Executives or other loan movements during the 2014 financial year.

Other Key Management Personnel transactions with the Group

No Key Management Personnel member has entered into a material contract with the Group during either the 2014 or 2013 financial years and there were no material contracts with, amounts receivable from or payable to interests involving Directors or Executives at period end. Other than consulting fees of $16,500 paid to Mr Kirkwood and $12,000 paid to Mr Tan, the value of transactions during the year with entities related to Directors included in the financial statements was nil.

Other Related Party Transactions

Other than the transactions disclosed above there were no transactions with other related parties during either the 2014 or 2013 financial years.

25. Contingent Liabilities

The Group is not aware of any contingent liabilities or contingent assets capable of having a material impact on the Group, other than service contracts with Key Management Personnel.

26. Employee Benefits

Aggregate liability for employee benefits, including on-costs:

	Consolidated	
	2014 $'000	**2013 $'000**
Current – employee benefits provision:		
Annual leave and long service leave entitlements	**136**	119
Performance incentive entitlements	**49**	64
Non-current – employee benefits provision:		
Long service leave entitlement	**13**	12
Total employee benefits	**198**	195

At-Risk Incentive Performance Payments

Compensation for all employees other than Non-Executive Directors includes an at-risk performance component. Provision has been made at reporting date for the amount payable in respect of performance for the financial year as measured against agreed criteria set on an employee-by-employee basis.

A reconciliation of movement for the year for all employee provisions is provided in the following table.

	Annual Leave $'000	**Long Service Leave $'000**	**Performance Incentive $'000**	**Total $'000**
Balance at the beginning of the year	93	38	64	195
Provision utilised	(32)	-	(64)	(96)
Charges raised	41	8	50	99
Balance at the end of the year	**102**	**46**	**50**	**198**

The present values of employee entitlements not expected to be settled within 12 months of reporting date have been calculated using the following weighted averages:

	2014	**2013**
Assumed rate of annual increase in salary and wages	**5.0%**	5.0%
Average discount rate	**3.2%**	4.1%
Settlement term (years)	**7**	7
Number of employees at year end (excluding Non-Executive Directors)	**5**	6

Equity Based Plan: Avexa Employee Share Option Plan

The Company has a share option plan for employees (ESOP), and during the financial year ended 30 June 2014 issued nil (2013: nil) options over unissued shares under the rules of the ESOP. 4,190,000 (2013: 3,080,000) of these options were forfeited or lapsed during the financial year and nil (2013: nil) options issued in a prior year were exercised during the financial year for total proceeds of $nil (2013: $nil), at a weighted average exercise price of $nil (2013: $nil).

The ESOP rules include the following terms and conditions:

- the Board has absolute discretion in terms of eligibility subject to the 5 per cent limit of the Company's share capital that can be issued to employees for the ESOP;
- the options to acquire ordinary shares will be issued for no consideration;
- the options have a maximum five-year life subject to death, permanent disablement or termination of employment in circumstances the Board deem to involve serious misconduct;
- each option is convertible into one ordinary share; and
- there are no voting rights attached to the options or the unissued ordinary shares.

Movements during the financial year are detailed in the following table.

2014

Grant Date	Expiry Date	Exercise Price#	Number of Options at Beginning of Year	Options Granted	Options Forfeited/ Lapsed	Number of Options at End of Year
18 June 2009	18 June 2014	$0.13	190,000	-	190,000	-
Total employee options on issue			**190,000**	**-**	**190,000**	**-**

The exercise price of employee options is reduced whenever there is a pro rata issue (except a bonus issue) to the holders of the Company's shares in accordance with the formula outlined in ASX Listing Rule 6.21.

Movements in employee options during the previous financial year are detailed in the following table.

2013

Grant Date	Expiry Date	Exercise Price Original/ Current#	Number of Options at Beginning of Year	Options Granted	Options Forfeited/ Lapsed	Number of Options at End of Year
10 Sept 2008	30 June 2013	$0.31/$0.30	1,180,000	-	1,180,000	-
10 Sept 2008	30 June 2013	$0.54/$0.53	200,000	-	200,000	-
10 Sept 2008	30 June 2013	$0.62/$0.61	200,000	-	200,000	-
18 June 2009	18 June 2014	$0.13/$0.13	190,000	-	-	190,000
3 May 2011	31 Dec 2012	$0.06/$0.06	1,500,000	-	1,500,000	-
Total employee options on issue			**3,270,000**	**-**	**3,080,000**	**190,000**

The exercise price of employee options is reduced whenever there is a pro rata issue (except a bonus issue) to the holders of the Company's shares in accordance with the formula outlined in ASX Listing Rule 6.21.

27. Events Subsequent to Balance Date

In the interval between the end of the financial year and the date of this report no item, no transaction or event of a material and unusual nature has arisen that is likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

28. Dividends

No dividends were paid or proposed in the current or prior financial years.

29. Segment Reporting

Information about Reportable Segments

The Group comprises of the following two distinct business segments:

1. Research and Development – the operation of conducting anti-infective research and development.
2. Investments – investing in a US coal mine and the Australian equities.

	Research and Development		Investments		Total	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000
External revenues	**295**	1,069	**-**	-	**295**	1,069
Inter-segment revenue	**-**	-	**-**	-	**-**	-
Interest revenue	**196**	596	**110**	27	**306**	623
Finance expense	**-**	-	**-**	(32)	**-**	(32)
Impairment charge	**-**	-	**637**	-	**637**	-
Share of net profit/(loss) of associate accounted for using the equity method	**-**	-	**(104)**	-	**(104)**	-
Depreciation and loss on disposal	**15**	252	**-**	-	**15**	252
Reportable segment profit/(loss) before tax	**(2,982)**	(2,787)	**85**	(185)	**(2,897)**	(2,972)
Reportable segment total assets	**3,763**	12,763	**8,160**	1,250	**11,923**	14,013
Investment accounted for using the equity method	**-**	-	**4,158**	-	**4,158**	-
Reportable segment total liabilities	**432**	472	**20**	2	**452**	474

The aggregate of the assets, liabilities and profits for each segment is the Group total.

30. Group Entities

Significant subsidiaries for the year ended:

		Ownership Interest %	
	Country of Incorporation	2014	2013
AVI Capital Pty Ltd	Australia	**100**	100
Avexa Inc	USA	**100**	100
Avexa Ltd	UK	**100**	100
AVI Capital Inc	USA	**100**	100

31. Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2014 the parent entity of the Group was Avexa Limited.

	2014 $'000	2013 $'000
Results of parent entity		
Profit/(loss) for the period	**(1,890)**	(5,397)
Other comprehensive income	**-**	-
Total comprehensive income for the period	**(1,890)**	(5,397)
Financial position of parent entity at year end		
Current assets	**9,629**	13,949
Total assets	**12,005**	13,969
Current liabilities	**417**	459
Total liabilities	**430**	472
Total equity of the parent entity		
Share capital	**183,483**	182,523
Revaluation reserve	**-**	-
Retained earnings	**(171,908)**	(169,025)
Total equity	**11,575**	13,498

32. Finance Income and Finance Costs

	Consolidated	
	2014 $'000	2013 $'000
Recognised in profit or loss		
Interest income on cash and cash equivalents	**196**	623
Interest Income on loan receivable	**110**	-
Net gain on disposal of available-for-sale financial assets transferred from equity	**-**	828
Finance income	**306**	1,451
Impairment charge	**(506)**	-
Impairment charge – transfer from fair value reserve	**(131)**	-
Net change in fair value of financial assets at fair value through profit or loss:	**-**	(860)
Finance costs	**(637)**	(860)
Net finance income/(costs) recognised in profit or loss	**(331)**	591
Recognised in other comprehensive income		
Net change in fair value of available-for-sale financial assets	**-**	356
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	**-**	210
Finance income recognised in other comprehensive income	**-**	566

Impairment losses on investments for the period were $637,500, comprising an impairment of $506,500 for the period 1 July 2013 to 30 June 2014, in addition to the reclassification of the cumulative loss of $131,000 from the fair value reserve to the income statement. The impairment charges were recognised due to a significant decline in the share price of the listed equity instruments.

The Group's investment in equity interests are shares listed on the ASX and are currently actively traded on that market. The fair value of investments in equity instruments is based on the price quotation at 30 June 2014.

As such, these financial assets are considered to be level 1 financial assets in the fair value hierarchy.

DIRECTORS' DECLARATION

For the Year Ended 30 June 2014

In the opinion of the Directors of Avexa Limited ('the Company'):

(a) the consolidated financial statements and notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 10 to 47, are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a); and

(c) there are reasonable grounds to believe that the Company and the Group entities will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Interim Chief Executive Officer and Financial Controller for the financial year ended 30 June 2014.

Dated at Melbourne this 28th day of August, 2014.

This report is made with a resolution of the Directors.

Mr I Kirkwood
Chairman

Independent Auditor's Report to the Members of Avexa Limited

Report on the Financial Report

We have audited the accompanying financial report of Avexa Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2014, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, Notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 2(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

(a) The financial report of Avexa Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

INDEPENDENT AUDITOR'S REPORT continued

For the Year Ended 30 June 2014

KPMG

Emphasis of Matter Relating to Going Concern and Investment in and Loan to Associate

Without qualifying our opinion, we draw attention to the following matters:

(i) Note 2(b) in the consolidated financial statements describes the impact of the Company's investment in and loan to an associated company, Coal Holdings USA LLC (CHUSA), on the Company's cash reserves and the availability of funds to meet operating cash requirements in the next 12 months. As described in Note 2(b), this matter indicates the existence of a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern.

(ii) Notes 10 and 12 in the consolidated financial statements provides details of the Company's equity investment in CHUSA and the secured loan to CHUSA. As described in Note 12, the ability of the Company to recover its investment and loan is dependent on the successful execution of the business plan of CHUSA, which is dependent on a number of factors that may or may not occur as expected. In addition, CHUSA may require additional funding to meet the capital costs associated with the pre-production phase of the business plan. The source of this funding has not yet been determined. As a result of these factors, there is material uncertainty as to whether the carrying amount of the investment in CHUSA and the secured loan will be recovered at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 18 of the Directors' Report for the year ended 30 June 2014. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Avexa Limited for the year ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Paul J McDonald

Paul J McDonald
Partner

Melbourne
28 August 2014

CORPORATE GOVERNANCE STATEMENT

Introduction

The Board of Directors (**Board**) of Avexa Limited (the **Company** or **Avexa**) recognises the important role that effective corporate governance practices can play in the management of the business of a company and the creation of value for a company's shareholders. As a result, the Company and its Board are committed to achieving and maintaining a high standard of corporate governance that is tailored to suit, amongst other matters, the size of the Company and its business and the characteristics of the industry of which it is a part.

A description of the Company's main corporate governance practices and policies is set out in this statement. In certain instances, the Company's approach has been to address the objectives underlying the ASX Corporate Governance Council's (**CGC**) Corporate Governance Principles and Recommendations (the **ASX Recommendations**) without strictly complying with the letter of the Recommendations. Accordingly, while the Company has adopted most of the ASX Recommendations, it has not followed others. The instances in which the Company's practices depart from the ASX Recommendations are described and explained in this statement. The Company has decided not to report against the third edition of the CGC's recommendations at this time.

The Board will continue to review and assess the Company's corporate governance practices and policies as the Company's business evolves and grows over time.

The Company's Corporate Governance Practices were in place throughout the year ending 30 June 2014. The table on pages 52 to 54 summaries the Company's compliance with the CGC's recommendations.

For further information on corporate governance policies adopted by Avexa, refer to our website: www.avexa.com.au

Recommendation		Comply Yes/No	Reference/ Explanation	ASX Listing Rule/CGC Recommendations
Principle 1 – Lay Solid Foundations for Management and Oversight				
1.1	Companies should establish the functions reserved to the Board and those delegated to Senior Executives and disclose those functions.	Yes	Page 54	ASX CGC 1.1
1.2	Companies should disclose the process for evaluating the performance of Senior Executives.	Yes	Page 56 Remuneration Report	ASX CGC 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	No	Pages 54 and 56	ASX CGC 1.3
Principle 2 – Structure the Board to Add Value				
2.1	A majority of the Board should be independent Directors.	Yes	Page 55	ASX CGC 2.1
2.2	The Chair should be an independent Director.	Yes	Page 55	ASX CGC 2.2
2.3	The roles of Chair and Chief Executive Officer (CEO) should not be exercised by the same individual.	Yes	Page 55	ASX CGC 2.3
2.4	The Board should establish a Nomination Committee.	Yes	Page 55	ASX CGC 2.4
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Yes	Page 55	ASX CGC 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	Pages 7, 8, 54, 55, 56 and 57, website	ASX CGC 2.6
Principle 3 – Promote Ethical and Responsible Decision-making				
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	No	Page 58	ASX CGC 3.1
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes	Website, page 60	ASX CGC 3.2
3.3	Companies should disclose in each Annual Report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	No	Page 61	ASX CGC 3.3
3.4	Companies should disclose in each Annual Report the proportion of women employees in the whole organisation, women in Senior Executives positions and women on the Board.	Yes	Page 61	ASX CGC 3.4
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	Website, page 61	ASX CGC 3.5

Recommendation		Comply Yes/No	Reference/ Explanation	ASX Listing Rule/CGC Recommendations
Principle 4 – Safeguard Integrity in Financial Reporting				
4.1	The Board should establish an Audit Committee.	Yes	Page 56	ASX CGC 4.1
4.2	The Audit Committee should be structured so that it: • consists only of Non-Executive Directors; • consists of a majority of independent Directors; • is chaired by an independent Chair, who is not Chair of the Board; and • has at least three members.	No	Pages 56 and 57	ASX CGC 4.2 ASX LR 12.7
4.3	The Audit Committee should have a formal charter.	Yes	Website	ASX CGC 4.3
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	Website, pages 7, 8, 56 and 57	ASX CGC 4.4
Principle 5 – Make Timely and Balanced Disclosure				
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a Senior Executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Website, page 57	ASX CGC 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	Website, page 57	ASX CGC 5.2
Principle 6 – Respect the Rights of Shareholders				
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 59	ASX CGC 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	Page 59	ASX CGC 6.2
Principle 7 – Recognise and Manage Risk				
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website, pages 9, 39 and 58	ASX CGC 7.1
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes	Pages 57 and 58	ASX CGC 7.2
7.3	The Board should disclose whether it has received assurance from the CEO [or equivalent] and the Chief Financial Officer (CFO) [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 57	ASX CGC 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	Page 57	ASX CGC 7.4

Recommendation		Comply Yes/No	Reference/ Explanation	ASX Listing Rule/CGC Recommendations
Principle 8 – Remunerate Fairly and Responsibly				
8.1	The Board should establish a Remuneration Committee.	Yes	Page 56	ASX CGC 8.1
8.2	The Remuneration Committee should be structured so that it: • consists of a majority of independent Directors; • is chaired by an independent Chair; and • has at least three members.	Yes	Pages 56 and 57. Also refer to Remuneration Report	ASX CGC 8.2
8.3	Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives.	Yes	Refer to Remuneration Report	ASX CGC 8.2
8.4	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	Pages 10 and 11, website	ASX CGC 8.3

The Board of Directors

The Avexa Board is responsible for, and has the authority to determine, all matters relating to the strategic direction, policies and practices of Avexa with the objective of protection and enhancement of long term shareholder value. Part of the Board's role in this regard is to establish goals for Senior Executives and for the operation of the Company.

In defining its roles and responsibilities, the Board has not adopted a formal charter, but instead has had regard to the Constitution of Avexa and to the categories of matters that are commonly understood to be within the province of a company Board. The Board's specific responsibilities and functions include:

- oversight of the Company, including its control and accountability systems;
- appointing, removing and approving remuneration for the interim Chief Executive Officer (CEO);
- appointing, removing and approving remuneration for each of the Financial Controller and Company Secretary;
- input into and final approval of the corporate strategy, business plans, budgets and performance objectives developed by senior management;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, budgeting, operations and acquisitions and divestitures;
- approving communications with shareholders and announcements to the ASX;
- reviewing and ratifying systems of risk management, internal compliance and control and legal compliance; and
- approving and monitoring financial and other statutory reporting and compliance matters.

The Board has approved a formal delegation to the CEO and other senior management of day-to-day authority over the operations of Avexa's business.

The Board monitors the business affairs of the Company on behalf of holders of the Company's securities and has formally adopted corporate governance policies which are designed to encourage Directors to focus their attention on accountability, risk management and ethical conduct.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the operation of the Board.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of sub-committees. Specialist sub-committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Audit and Risk Committee; and
- Remuneration and Nominations Committee.

The roles and responsibilities of these committees are discussed throughout this corporate governance statement.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- setting overall financial goals for the Company;
- approval of strategies, objectives and plans for the Company to achieve these goals;
- monitoring Executive management and business performance in the implementation and achievement of strategic and business objectives a strategic plan designed to meet stakeholders' needs and manage business risk;
- ongoing development of the strategic plans and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- implementation of financial plans and budgets by management and monitoring progress against budget on an ongoing basis – via the establishment and reporting of both financial and non-financial key performance indicators.

Board Composition

The Board currently consists of three independent Non-Executive Directors. The Company also has an Interim CEO, Dr Jonathan Coates, who is not a Director of the Company. The Non-Executive Directors are as follows:

- Mr Iain Kirkwood (Chairman);
- Mr Bruce Hewett; and
- Mr Allan Tan.

Details of each Director's relevant skills, experience and expertise and his term of office, attendance at Board and committee meetings in each case as at the date of this Annual Report, are set out in the Directors' Report.

Directors of Avexa Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of Director independence, 'materiality' is considered from both the Group and individual Director's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5 per cent of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10 per cent of the appropriate base amount.

Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the Director in question to shape the direction of the Group's loyalty.

The Board has considered the independence of each of the Avexa Directors within the framework of the ASX Recommendations, and in accordance with the definition of independence above, and the materiality thresholds set, each of the Directors of Avexa (including the Chair) are considered to be independent.

The Board continually assesses the composition of the Board and endeavours to ensure that it reflects an appropriate mix of expertise, knowledge of Avexa's operations and independence. The size of the Board is currently considered optimal, as a small Board facilitates efficient decision-making and is appropriate for a company of Avexa's size.

Board Processes

The Board generally holds 11 scheduled meetings per annum plus any other meetings as necessary to deal with specific matters. Agendas for Board meetings are prepared in conjunction with the Chairman, interim CEO and Company Secretary, with standing items comprising minutes, matters arising from previous meetings, Occupational Health and Safety Report, CEO and finance reports. Executives are invited to present the CEO and finance reports and papers are circulated in advance in all but exceptional circumstances.

Each Director of Avexa has the right to seek independent professional advice at the Company's expense with the approval of the Chairman not to be withheld except in case of an unreasonable request, and to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil his or her duties and responsibilities as a Director.

Each Director is also indemnified under the Company's Constitution and under separate deeds of indemnity and has the right of access to all relevant Company information and Executives, and to continuing education opportunities to update and enhance their skills and knowledge.

Board Remuneration and Performance Evaluations

The Company Constitution and the ASX Listing Rules require the total amount of remuneration payable to Non-Executive Directors to be approved by shareholders by ordinary resolution at a general meeting. At the Company's 2005 inaugural Annual General Meeting, the Company's shareholders approved $350,000 as the maximum aggregate amount of remuneration payable to Directors. This amount has not changed.

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance-based bonuses and do not generally participate in equity-based incentive plans of the Company although it is noted that options were issued to members of the Board following the last AGM (details of which are disclosed in the Remuneration Report). Non-Executive Directors are entitled to statutory superannuation.

The details of remuneration received by each of the Company's Directors are contained in the Remuneration Report.

The Board carefully considers its composition and the mix of skills, experience and perspectives of its members on an ongoing basis. The Nominations and Remuneration Committee is committed to conducting annual reviews of the role of the Board, assessing the performance of the Board over the previous 12 months and examining ways of assisting the Board in performing its duties more effectively. It is expected that the next annual review will include:

- examination of the Board's interaction with management;
- the nature of information provided to the Board by management; and
- management's performance in assisting the Board to meet its objectives.

A similar review will be conducted for each committee by the Board with the aim of assessing the performance of each committee and identifying areas where improvements can be made.

A formal performance evaluation for the Board, its committees and the Directors has not taken place during the reporting period, however, the Chairman has, together with the other Directors, informally surveyed the role of the Board and has assessed the performance of the Directors. The Directors consider that the Board is functioning well and, at the present time, consider that a more structured review/evaluation process is unlikely to add any material value and that the Board's existing time and resources are better utilised in assisting with the execution of the Company's strategies.

The Board, with the assistance of the Nominations and Remuneration Committee, oversees the performance evaluation of the interim CEO, Dr Jonathan Coates and other Senior Executives. The evaluation is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel. This evaluation generally occurs on an annual basis or more often, where required. A performance evaluation for the interim CEO and other Senior Executives occurred in July 2014 based on performance against KPIs previously set for the 12-month period ending 30 June 2014. The Board also notes that the size of the Company and the Executive team is such that performance is able to be monitored on an ongoing basis.

Board Committees

At the commencement of operations in 2004 the Board established an Audit Committee and in 2008 established a Remuneration and Nominations Committee. Both operate under a charter approved by the Board (copies of which are set out on the Company's website).

For details on the number of meetings of the committee meetings held during the year and the attendees at those meetings, refer to the Directors' Report.

The Audit Committee in general is responsible for any matters relating to the assets and financial affairs of Avexa, internal controls, ethical standards and to the Company's external or internal audit functions. The Audit Committee's specific responsibilities (which have been delegated to it by the Board) include:

- monitoring and reviewing the integrity of financial statements and the effectiveness of internal financial controls;
- making recommendations to the Board in relation to the appointment of external auditors and approving the remuneration and terms of their engagement;
- reviewing risk management and internal compliance, business processes and control systems; and
- monitoring and reviewing the independence, objectivity and competency of internal and external auditors.

The Remuneration and Nomination Committee in general is responsible for the selection and appointment of new Directors, Board and Committee composition, succession planning and performance evaluation of Directors and Senior Executives as well as the corporate governance procedures of the Company. A key role of the Remuneration and Nomination Committee is ensuring that the Board is appropriately structured and comprised of individuals who are best able to discharge the responsibilities of Directors. In doing so, the Remuneration and Nomination Committee has regard to, amongst other things, the size, composition, diversity and skills required by the Board to enable it to fulfil its responsibilities to shareholders having regard to its current activities and the extent to which the required knowledge, experience and skills are represented on the Board.

In respect of human resources policies and initiatives, it is responsible for the structure of a Performance Management and Development System (**PMDS**).

The PMDS structure is designed to provide employee remuneration which is competitive, equitable, sufficiently attractive to attract and retain high-quality employees and provide adequate incentive for all staff to actively pursue the achievement of the Company's long term strategic objectives.

Each committee's charter is posted on the corporate governance section of Avexa's website. Each committee comprises the following Non-Executive, independent Directors:

- Mr Iain Kirkwood (Chairman of the Audit and Risk Committee);
- Mr Bruce Hewett (Chairman of the Remuneration and Nomination Committee); and
- Mr Allan Tan.

All of the members of both the Remuneration and Nomination Committee and the Audit Committee are independent Directors. Details of Directors' qualifications and attendance at committee meetings are set out in the Directors' Report.

The Board recognises the Corporate Governance Council's recommendation that the Audit Committee should be chaired by an independent Chair who is not also the Chair of the Board. The Board also recognises that, since April 2011, when Mr Kirkwood was appointed as Chair of the Board, he is responsible for chairing both the Board and the Audit Committee. As a result, CGC recommendation 4.2 has not been followed.

While the Board will continue to keep this issue under review, at this time the Directors believe that, given his skills and expertise in relation to finance matters, Mr Kirkwood remains the most appropriate person to Chair the Audit Committee. The Board believes that having Mr Kirkwood as the Chair of the Audit Committee better safeguards the integrity of the Company's financial reporting structure and outweighs the benefits of having an independent Chair who is also not Chair of the Board. Further, given the Company's size and available cash resources, the appointment of additional independent Directors is not considered to be appropriate at this time. The Board also considers that Mr Kirkwood brings quality and independent judgement to his role as Chair of the Audit Committee.

The Board requires the interim CEO of Avexa and the Financial Controller to provide written assurances to the Board in respect of the accuracy and compliance of Company financial reports and of the integrity of the risk management and internal compliance and control systems as part of the management sign-off process for Avexa's half-year and full-year financial statements. The interim CEO of Avexa and the Financial Controller have reported to the Board as the effectiveness of the implementation of the Company's risk management and internal control systems.

Other Corporate Governance Practices and Policies

Avexa has written policies and procedures in respect of the environment, trading in the Company's securities and compliance with the Company's continuous disclosure obligations. These policies and procedures are posted on the corporate governance section of Avexa's website.

Under the Company's securities trading policy, an Executive or Director must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Before commencing to trade, an Executive must first obtain the approval of the Company Secretary to do so and a Director must first obtain approval of the Chairman.

Only in exceptional circumstances will approval be forthcoming inside of the following periods which is four weeks after:

- 1 July until the business day after the release of the full year results;
- 1 January until the business day after the release of the half-yearly results; and
- any additional periods imposed by the Board from time to time.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by Directors in the securities of the Company.

The Company does not have a formal code of conduct governing unethical practices or compliance matters. Instead, the Company has individual policies covering matters such as confidentiality, conflicts of interest, fraud and employee discrimination and harassment. Avexa employees, contractors and consultants are made aware of these policies through induction processes and the employees' policies and procedures manual.

Furthermore, Directors, management and staff are expected to perform their duties in a professional manner and act with the utmost integrity, objectivity and ethics in all dealings with each other, the Company, customers, suppliers and the community, striving at all times to enhance the reputation and performance of the Company with full regard to and compliance with all legal obligations of the Company.

All Directors and employees are required to abide by laws and regulations in order to respect confidentiality and ensure the proper handling of information.

Risk

The Board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Company's approach to creating long term shareholder value.

Implementation of the risk management system and day-to-day management of risk is the responsibility of the interim CEO, with the assistance of senior management. The interim CEO is responsible for regularly reporting directly to the Board on all matters associated with risk management, including whether the Company's material business risks are being managed effectively. In fulfilling his duties, the interim CEO has unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter he believes appropriate, with the approval of the Board.

The Board is responsible for overseeing the establishment and implementation of effective risk management and internal control systems to manage the Company's material business risks and for reviewing and monitoring the Company's application of these systems. In doing so the Board has taken the view that it is crucial for all Board members to be a part of this process and as such, has not established a separate risk management committee.

In addition, the Company maintains a number of policies and practices designed to manage specific business risks. These include:

- Audit Committee and Audit Committee Charter;
- insurance programs;
- regular budgeting and financial reporting;
- clear limits and authorities for expenditure levels;
- procedures/controls to manage environmental and occupational health and safety matters;
- procedures for compliance with continuous disclosure obligations under the ASX Listing Rules; and
- procedures to assist with establishing and administering corporate governance systems and disclosure requirements.

The Company's risk management system is an ongoing process. It is recognised that the level and extent of the risk management system will evolve commensurate with the evolution and growth of the Company's activities. Further information on financial risk management is outlined in Note 23 to the financial statements.

For the purposes of assisting investors to understand better the nature of the risks faced by Avexa Limited, the Board has prepared the following list of operational risks as part of the Principle 7 disclosures. However, the Board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events:

- inherent uncertainties that exist in any development/commercialisation program for new drugs;
- ability to raise sufficient funds (via the debt or equity capital markets) to fund the Company's initiatives and programs;
- the intellectual property of the Company may become subject to adverse claims; and
- the market performance of the Company's liquid strategic investments.

As part of its duties, the Company's internal audit function conducts a series of risk-based and routine reviews based on a plan agreed with management and the Audit Committee with the objective of providing assurance on the adequacy of the Company's risk framework and the completeness and accuracy of risk reporting by management.

In accordance with section 295A of the Corporations Act, the interim CEO and Financial Controller have provided a written statement to the Board that:

- their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating effectively in all material respects.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the interim CEO and Financial Controller can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

External Auditors

KPMG has been Avexa's external auditor since the Company's incorporation in April 2004, and meets with the Audit and Risk Committee at least three times each year. KPMG will be requested to attend the annual general meeting and to be available to answer shareholder questions about its audit of the Company's financial statements.

The Company has an Auditor Independence Policy.

Shareholder Communications

Pursuant to Principle 6, Avexa acknowledges the need to promote effective communications with shareholders and to encourage effective participation at general meetings. The Board of the Company aims to ensure that the shareholders are informed of all major developments affecting the Company and accordingly has adopted the following strategy:

- shareholder meetings are structured to provide effective communication to shareholders and allow reasonable opportunity for informed shareholder participation;
- the external auditor attends the annual general meeting (AGM) and is available to respond to shareholder questions;
- the Company's Annual Report is available (at the shareholder's option);
- in addition to the Annual Report, the Company issues a report with the release of the half-year and full-year financial results;
- the Company posts on its website all relevant announcements made to the market (including information used for analyst briefings and press releases) after they have been released to the ASX; and
- shareholder questions may be posed to the Company via email communication (please refer to the Company's website) or by written correspondence or telephone to the Company Secretary.

The Company's website www.avexa.com.au has a dedicated investor relations section for the purpose of publishing all important Company information and relevant announcements made to the market.

The external auditors are required to attend the annual general meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

The Company continually reviews its website and communications strategy to identify ways in which it can promote its greater use by shareholders and better inform shareholders generally.

Executive Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high-quality Board and Executive team by remunerating Directors and key Executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of Executive Officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key Executives;
- attraction of high quality management to the Company; and
- performance incentives that allow Executives to share in the success of Avexa Limited.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and Executives in the 12-month period ending 30 June 2013 (including all monetary and non-monetary components) please refer to the Remuneration Report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits to Non-Executive Directors.

The Board has adopted a policy of prohibiting the entry by the Directors or any Senior Executive into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration scheme.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, the interim CEO and Executive team, which it does primarily through the Remuneration and Nomination Committee.

Diversity

Avexa is committed to workplace diversity and has had in place a formal diversity policy since June 2011.

The Board recognises the benefits of diversity where people from different backgrounds can bring fresh ideas and perceptions which make the way work is done more efficient; and products and services more valued.

Diversity includes, but is not limited to, gender, age, ethnicity, religion and cultural background. Diversity also encompasses the many ways people differ in terms of their education, life experience, job function, work experience, personality, location, marital status and carer responsibilities.

Diversity at Avexa is about the commitment to equality and the treating of all individuals with respect.

Avexa understands that the wide array of perspectives resulting from such diversity promotes innovation and business success which creates value for our customers and shareholders.

To the extent practicable, having regard to Avexa's size and stage of development, Avexa supports and will address the recommendations and guidance provided in the ASX Corporate Governance Principles and Recommendations.

Measures designed to promote diversity at Avexa include:

- **Career Development and Promotion:** Avexa facilitates equal employment opportunities based on relative ability, performance or potential. This is exemplified by the gender diversity in management. All employees are treated fairly and evaluated objectively.
- **Safe Work Environment:** Avexa helps to build a safe work environment by taking action against inappropriate workplace and business behaviour that does not value diversity including discrimination, harassment, bullying, victimisation and vilification.
- **Flexibility in the Workplace:** Avexa has a culture which takes account of domestic responsibilities of its employees.

The Diversity Policy provides for the Board to develop an appointment process for future Directors that takes diversity of background into account to fit and enhance the Board's skills matrix.

In order to promote the specific objective of gender diversity, the Diversity Policy requires that the selection process for Board appointments must involve the following steps:

- a short-list identifying potential candidates for the appointment must be compiled and must include at least one female candidate; and
- if, at the end of the selection process, a female candidate is not selected, the Board must be satisfied that there are objective reasons to support its determination.

The Avexa Board is committed to workplace diversity, with a particular focus on supporting the representation of women at the senior level of Avexa's management. While there is currently no gender diversity on the Board, the Board is made up of individuals from various professions, cultures, and backgrounds. The Board has not determined to adopt a particular mix of skills and diversity for which the Board is looking to achieve by way of Board composition preferring to have regard to:

- the need for independence;
- the strategic direction and progress of the Company; and
- the geographic spread and diversity of the Company's business.

The Company aims to achieve an appropriate mix of diversity on its Board, in senior management and throughout the organisation. The Board has determined that no specific measurable objectives will be established until the number of employees and level of activities of the Company increases to a level sufficient to enable meaningful and achievable objectives to be developed.

The proportion of women in the organisation, Senior Executive positions and the Board during the reporting period is as follows:

	Women in Organisation	Women as Senior Executives	Women on the Board
Number	3	2	0
Proportion (%)	50	66	0

SHAREHOLDER INFORMATION

Share Capital

As at 9 October 2014 the share capital of the Company was:

Issued and paid up capital: 925,650,566 ordinary shares.

	Number
Number of shares quoted on the Australian Securities Exchange Limited	925,650,566

Avexa Limited ordinary shares have been traded on ASX Limited since 23 September 2004 and trade under the ASX code AVX. Melbourne is the Home Exchange. The Company's securities are not quoted on any other stock exchange.

Twenty Largest Shareholders as at 9 October 2014

Name	Ordinary Shares Held	Percentage of Total Shareholding
Mr Jonathan Keng Hock Lim	144,500,564	15.61
UOB Kay Hian Private Limited <Clients A/C>	48,783,750	5.27
Citicorp Nominees Pty Limited	34,175,804	3.69
HSBC Custody Nominees (Australia) Limited	33,062,096	3.57
National Nominees Limited	29,811,190	3.22
Mr Paul Andrew George Dickson <Johannes Y Lin A/C>	13,303,782	1.44
HSBC Custody Nominees (Australia) Limited – A/C 2	13,029,552	1.41
Mrs Lauraine Elizabeth Worthington	12,612,049	1.36
Link Healthcare Pte Ltd	10,000,000	1.08
Mr Jack Budiman	8,000,000	0.86
Reefgrove Pty Ltd <IJ Miller A/C>	7,554,403	0.82
Pt Dragon Capital Management	7,295,000	0.79
Mr Jerzy Plaga	7,229,218	0.78
Paul Hammans Pty Ltd <Hammans Family S/F A/C>	7,200,000	0.79
Mr David Kevin Cooper & Mrs Natalie Cooper <D & N Cooper Family A/C>	6,893,969	0.75
Mr John Mitchell & Ms Pauline Mitchell <Mitchell Super Fund A/C>	6,740,000	0.73
Inside Investments Pty Ltd <D'Allura Share Holding A/C>	6,635,715	0.72
Mrs Oanh Thi Phuong Tran	6,473,080	0.70
Mr Noel Edward Pereira	6,300,000	0.65
Mr Murray Shaw & Mr Benjamin Shaw & Ms Lee Anne Shaw <Uri Park Pastoral A/C>	6,142,246	0.66
Totals for Top 20	**415,742,418**	**44.91**
Total issued capital	**925,650,566**	

Substantial Shareholders

The following information is extracted from substantial shareholding notices given to the Company up to 9 October 2014 by shareholders who hold relevant interests in more than 5 per cent of the Company's voting shares.

Name	Ordinary Shares Held	Percentage of Total Shareholding
Mr Jonathan Keng Hock Lim	144,500,564	15.61

Distribution of Shareholders as at 9 October 2014

Range	Holders	Ordinary Shares Held	Percentage of Total Shareholding
1 – 1,000	1,217	656,614	0.07
1,001 – 5,000	2,016	5,446,273	0.58
5,001 – 10,000	988	7,716,551	0.83
10,001 – 100,000	2,794	109,223,664	11.80
100,001 and over	957	802,607,464	86.70
Total shareholders	**7,972**	**925,650,566**	**100.00**

The number of shareholders as at 9 October 2014 with less than a marketable parcel of $500 worth of shares, based on the market price as at the above date, was 5,551.

Shares and Voting Rights

As at 9 October 2014, there were 7,972 holders of ordinary shares of the Company.

The voting rights attached to ordinary shares are set out in Rules 5(f) and 40 of the Company's Constitution. In broad summary, but without prejudice to the provisions of those Rules, each shareholder present at a general meeting in person or by a duly appointed representative, proxy or attorney:

(a) on a show of hands, has one vote except if a shareholder has appointed more than one person as a representative, proxy or attorney, in which case none of those persons is entitled to vote or if a person is entitled to vote in more than one capacity, that person is entitled to only one vote; and

(b) on a poll, has one vote for each fully paid share held and for each other share held, has a vote in respect of the share equivalent to the proportion which the amount paid on that share is of the total amounts paid and payable on that share at the time a poll is taken but no amount paid on a share in advance of calls shall be treated as paid on that share.

As at 9 October 2014, there were no options over nil unissued ordinary shares granted to employees under the Employee Share Option Plan and nil issued to Directors. There are no voting rights attached to either the options or the underlying unissued ordinary shares.

Officers

Interim Chief Executive Officer: Dr Jonathan Coates
Company Secretary: Mr Lee Mitchell

Registered Office

Avexa Limited
Suite 8, Level 1
61-63 Camberwell Road
Hawthorn East, Victoria 3123 Australia
Telephone +61 3 8888 1040
Facsimile +61 3 8888 1049

Share Registry

Boardroom Pty Limited
Level 8
446 Collins Street
Melbourne, Victoria 3000 Australia
Telephone 1300 737 760
Website www.boardroomlimited.com.au
Email enquiries@boardroomlimited.com.au

Facsimile for receipt of 24 November 2014 Annual General Meeting correspondence only: +61 2 9279 0664.

Securityholder Information

You can gain access to your Security holding information in a number of ways. The details are managed via the Company's registrar, Boardroom Pty Limited and can be accessed as outlined below. Please note your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) is required for access.

Investor Phone Access

Provides telephone access call 1300 737 760 to speak to an operator.

Internet Account Access

Securityholders can access their details via the internet. Boardroom provides access via its InvestorServe online service.
Go to www.investorserve.com.au to view your information.

Changing Shareholder Details

Changes to your name or address must be advised in writing to Boardroom Pty Limited. If you are sponsored by a broker, your notice in writing must be sent to your sponsoring broker.

Avexa Publications Mailing List

The Annual Report is a major source of information about the Company. Shareholders who do not wish to receive this publication can assist the Company to reduce costs by advising Boardroom Pty Limited in writing or doing so online using InvestorServe (www.investorserve.com.au). Shareholders will continue to receive all other shareholder information, including the Notice of Annual General Meeting and Proxy Form. The Annual Report, other releases and general Company information are also available on the Company's website at www.avexa.com.au

Annual General Meeting

Monday 24 November 2014
KPMG House
Theatrette Ground Floor
147 Collins Street
Melbourne Victoria 3000 Australia

Investor Relations

If you have any questions or issues regarding your shareholding, please contact Boardroom Pty Limited on 1300 737 760.

Design: MDM Investor Connect

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