AVEXA LIMITED ABN 53 108 150 750

The directors present their report on Avexa Limited (the 'Group') for the six months ended 31 December 2014 and the review report thereon.

Directors

The directors of the Company at any time during or since the end of the interim period are:

Name and independence status	Period of office and special responsibilities
Mr I Kirkwood Chairman and Independent Non-Executive Director	Independent non-executive director, Chair of the Audit Committee and Chairman from 19 April 2011.
Mr B Hewett Independent Non-Executive Director	Independent non-executive director and Chair of the Remuneration and Nomination Committee from 6 July 2010.
Mr A Tan Independent Non-Executive Director	Independent non-executive director from 1 December 2010.

All non-executive directors are members of both the Audit Committee and Remuneration and Nomination Committee from the date of their appointment.

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	-

Review of operations

The principal activity of the Group is the research and development, for commercialisation, of anti-infective pharmaceutical programs and projects.

The Group has recorded a loss of $0.8 million for the six months to 31 December 2014 (31 December 2013: $1.5 million). Avexa's operating cash consumption for the six months was $1.2 million (31 December 2013: $0.8 million) and reported closing cash resources of $1.2 million at 31 December 2014 (30 June 2014: $3.4 million).

SPP

On January 5th 2015, the Group announced that it had raised $795,000 from a Share Purchase Plan (SPP) announced on 24 November 2014. The proceeds from the SPP will provide further working capital for the Group, including the development of ATC.

The Group allotted and issued 55,128,359 new shares under the SPP on 5 January 2015. All eligible holders who submitted valid applications for shares under the SPP were accepted in full. Under the SPP shares were issued at 1.443 cents each. The total number of shares on issue in the capital of the Group is now 980,778,925.

North Pratt coal mine

For the six months to December 2014, Avexa's main focus has been to pursue its investment in the North Pratt coal mine, the proceeds from which will be used to finance the development of Avexa's research programmes, in particular ATC. The North Pratt coal mine in Alabama is projected to generate substantial returns which would significantly contribute to funding the final development of ATC. The requisite mining permits were issued after some administrative delays, and capital works at the North Pratt site have been completed. Coal production has commenced and sales receipts are expected during March.

Cash flows generated from the investment will be applied to advance Avexa's research projects, in particular its late stage HIV drug ATC. Preparations towards the final clinical trial of ATC continue to be made in anticipation of the flow of revenues from the mine and subsequent cash flows to Avexa.

ATC

Our recent focus for ATC has been to establish an Early Access scheme to make ATC available to patients in great need.

In many countries, including Australia, there are special procedures which allow the provision of life saving new drugs before the drug receives final approval. These special procedures are restricted to serious, life-threatening conditions where there is a significant medical need for a promising new drug which can offer hope to patients. 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.

Together with our partner, Link Healthcare, Avexa has established an Early Access scheme to make ATC available to patients in great need. Specialised ATC product was produced by NextPharma, a global pharmaceutical contract development and manufacturing organisation headquartered in the United Kingdom, and shipped to Link's warehouse in Singapore for global availability. A dedicated electronic portal for physicians has been set up by Link Healthcare to facilitate ease of access.

We view this as an important part of our overall development plan for ATC.

HIV Integrase

The HIV integrase project is focussed on identifying a new once daily integrase inhibitor for drug-resistant HIV patients. HIV integrase inhibitors are the newest class of HIV medicines, and are becoming popular drugs for first line treatment. However, the development of resistance to integrase inhibitors is well documented, and can be expected to increase with the increasing use of integrase inhibitors in first line treatment. Several novel compounds with excellent activity against integrase-resistant mutants have been discovered. Work has been scaled back temporarily in this area whilst we have focussed on the North Pratt investment. Available funds have been used to protect and maintain the Group's intellectual property in the area.

Antibiotic Programme

Avexa's antibacterial project is focusing on the exciting new potential opportunity in the area of Clostridium infections. Clostridium infections are increasing owing to the increasing use of broad spectrum antibiotics, and are becoming a significant problem, especially in hospitals. The average cost of a hospital stay owing to Clostridium infection has been estimated at US$25,000. Avexa's lead molecule shows good activity against clinical isolates of Clostridium difficile, and our partner Valevia succeeded in obtaining a grant in the UK to pursue this possible new indication. Recent work has focused on trying to show oral bioavailability for the lead molecule in advance of pre-clinical studies targeting Clostridium difficile infections.

Avexa's portfolio at 31 December 2014 comprised the following projects.

Apricitabine (ATC)

Avexa's nucleoside reverse transcriptase inhibitor (NRTI), apricitabine (ATC) is a novel drug for the treatment of human immunodeficiency virus (HIV) infection, the virus which causes Acquired Immunodeficiency Syndrome (AIDS). HIV targets primarily cells of the immune system, leaving infected individuals progressively less able to fend off otherwise common diseases. In the three decades since the identification of the first case of AIDS, over 30 million people have been infected with the virus worldwide, and many millions have died.

The course of the disease can be dramatically slowed down by treatment with a combination of antiviral drugs which inhibit the replication of the virus. However, resistance to these drugs often develops and in many cases, resistance to one drug causes cross-resistance to other, as yet unused, drugs of the same class. The result of this is becoming more and more evident in patients who have been treated for a long time, often called "experienced patients". These experienced patients may have very few, or even no, active drugs available to them in practice. A significant yet often understated problem is the unwanted and sometimes unpleasant side effects of many of the currently used anti-HIV drugs, which can be impossible to take for some patients or even life threatening in others. This places a considerable restriction on the drugs any individual HIV-infected patient can take. Lastly, many current drugs have significant unwanted 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. In essence, while HIV is an infection easily controlled by current drugs in newly infected patients and those with limited drug experience, there are many individual long term patients that in practice have very few appropriate drugs available.

The safety profile, activity and lack of drug-drug interactions demonstrated by ATC both in the lab and more importantly in the clinic shows that ATC has significant potential to be a valuable new treatment for HIV as it addresses those pivotal issues which are unmet for many experienced HIV-infected patients. As well as showing antiviral activity against natural (wild-type) HIV, ATC is active against HIV which has various genetic changes (mutations) that cause the virus to be resistant to other NRTIs. Such mutations include the M184V change (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 common in patients who have taken first line therapies, as the use of these existing NRTIs is widespread. Thus in patients whose current treatments are no longer effective due to the development of drug resistance, ATC has the potential to be a valuable treatment option. In addition, even in patients who have been treated with ATC for three years, resistance to ATC itself has not been identified suggesting that the useful lifespan of ATC may be subsequently longer. Clinical trials of ATC have shown it to be a safe and very well tolerated antiviral agent. ATC is easy to dose and is not affected by when the patient has taken a meal. Importantly for patients who also have other ailments, which is more common than not, ATC does not produce deleterious interactions when dosed with a variety of different drugs known to produce interactions with other 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.

Drug discovery and development

HIV Integrase

In order to replicate, HIV must undergo a series of essential processes that utilise a number of key enzymes. As these processes and enzymes are essential they are therefore good targets for the discovery of effective antiviral drugs. One of the most recent key targets to yield an effective medicine is the HIV integrase enzyme. This enzyme is responsible for taking the viral genome of HIV and splicing it into the host cell DNA, which is a required step in HIV replication. Raltegravir (Merck) was the first inhibitor of HIV integrase to be approved in 2009. Raltegravir is effective in reducing the viral load in HIV-infected patients. However, mutations in the viral integrase emerge that confer resistance to raltegravir. Also, raltegravir is dosed twice daily, and drug levels vary considerably between patients and even within the same patient from day to day. Raltegravir is also at risk of interaction with certain other drugs that are metabolised in the same way, which may cause jaundice. Despite these limitations, global sales of raltegravir in 2012 exceeded US$1 billion. A second integrase inhibitor (elvitegravir; Gilead) has recently been approved, but is cross-resistant with raltegravir, and requires pharmacokinetic boosting to obtain sufficient drug levels. Dolutegravir (ViiV Healthcare) is new integrase inhibitor with an activity profile different from raltegravir, and which has activity against raltegravir-resistant virus, but must also be dosed twice daily in resistant patients.

The primary goal of Avexa's integrase project is to discover compounds that a) maintain activity against virus that is resistant to raltegravir and other integrase inhibitors and b) have improved pharmacokinetic properties compared to the currently marketed integrase inhibitors.

Avexa's first generation compounds had improved metabolic stability but were only active against the wild type virus. Second generation compounds were then discovered which possessed potent activity against both wild type and resistant HIV integrase but were very rapidly cleared when dosed in rats. Recently, however, two classes of compounds were discovered which showed surprisingly good levels of drug after both oral and intravenous dosing in rats, out to 24h after dosing, indicating that once daily dosing is possible. These results have now been extended to non-human primates, where very similar results were achieved. Both compounds were well tolerated, and showed good levels of drug even 24h after dosing. Available funds have been used to protect and maintain the intellectual property in the area. Further progress in this area has been paused whilst funds have been concentrated on the North Pratt investment.

Antibacterial project

Avexa's antibacterial portfolio was licensed to Valevia in November 2010. An extensive study of the activity of AVX13616 against clinical bacterial isolates revealed surprising activity against Clostridium difficile isolates. This bacterium is a growing problem, particularly in hospitals, where the increasing use of broad spectrum antibiotics has led to an increase in these infections in already vulnerable patients. Antibiotic resistance is also of growing concern. It has proved difficult to show oral activity of the lead compound against Clostridium difficile. Efforts continue to demonstrate activity in vivo against other bacterial infections of commercial and medical significance.

Post Balance Date Events

On January 5th, 2015, the Group announced that it had raised $795,500 from a Share Purchase Plan (SPP) announced on 24 November 2014 as part of a capital management initiative.

The Group allotted and issued 55,128,359 new shares under the SPP on 5 January 2015. All eligible holders who submitted valid applications for shares under the SPP were accepted in full. Under the SPP shares were issued at 1.443 cents each. The total number of shares on issue in the capital of the Group is now 980,778,925.

There has not arisen since the end of the half-year any other item, transaction or event of a material and unusual nature 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.

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 six months ended 31 December 2014 and is set out on page 6 of this report.

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.

Dated at Melbourne this 26th day of February 2015.

Signed in accordance with a resolution of the directors.

Mr I Kirkwood
Chairman

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

To: the directors of Avexa Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the interim period ended 31 December 2014 there have been:

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

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

BW Szentirmay
Partner

Melbourne

26 February 2015

Consolidated Condensed statement of profit or loss and other comprehensive income for the six months ended 31 December

	Note	31 December 2014 $'000	31 December 2013 $'000
Revenue from operating activities		**12**	-
Other income – foreign exchange gains		**674**	365
Contract research and development expenses		**(412)**	(417)
Raw materials and consumables expenses		**-**	-
Personnel expenses excluding share-based payment expenses		**(529)**	(531)
Share-based payment expenses		**-**	-
Occupancy expenses		**(57)**	(27)
Depreciation		**(4)**	(9)
Asset management expenses		**(13)**	(10)
Legal and professional services expenses		**(86)**	(237)
Travel expenses		**(21)**	(26)
Insurance expenses		**(41)**	(47)
Intellectual property expenses		**(167)**	(153)
Share of net loss of equity accounted associate		**(350)**	-
Other expenses		**(168)**	(190)
Results from operating activities		**(1,162)**	**(1,282)**
Net finance income/(expense)	6	**382**	**(251)**
Income tax expense		**-**	-
Loss from operations for the period		**(780)**	**(1,533)**
Loss attributable to owners of the Company	7	**(780)**	**(1,533)**
Other comprehensive income			
Items that may be reclassified subsequently to the income statement			
Foreign currency translation reserve		**592**	-
Total comprehensive (loss)/income for the period attributed to the owners of the Company		**(188)**	**(1,533)**
Earnings per share		**Cents**	**Cents**
Basic earnings per share	14	(0.08)	(0.18)
Diluted earnings per share	14	(0.08)	(0.18)

The Consolidated Condensed Statement of profit or loss and other Comprehensive Income is to be read in conjunction with the notes to the half-year financial statements set out on pages 11 to 17.

for the six months ended 31 December 2014	Issued capital	Accumulated losses	Fair Value Reserve	Foreign Currency Translation Reserve	Total equity
	$'000	$'000	$'000	$'000	$'000
Opening balance as at 1 July 2014	**183,483**	**(171,787)**	-	**(225)**	**11,471**
Comprehensive income/(loss) for the period					
Loss	-	(780)	-	-	(780)
Total other comprehensive loss	-	-	-	592	592
Total comprehensive income/(loss) for the period	-	**(780)**	-	**592**	**(188)**
Transactions with owners, recorded directly in equity					
Contributions by owners					
Transfer from Fair Value Reserve	-	-	-	-	-
Issue of ordinary shares pursuant to share purchase plan [1]	(32)	-	-	-	(32)
Equity settled share-based payment transactions	-	-	-	-	-
Total transactions with owners	**(32)**	-	-	-	**(32)**
Closing balance as at 31 December 2014	**183,451**	**(172,567)**	-	**367**	**11,251**

[1] On January 5, 2015, the company announced that it had raised $795,500 (excluding transaction costs) from a Share Purchase Plan (SPP). The above amount relates to share issue costs.

For the six months ended 31 December 2013	Issued capital	Accumulated losses	Fair Value Reserve	Foreign Currency Translation Reserve	Total equity
	$'000	$'000	$'000	$'000	$'000
Opening balance as at 1 July 2013	**182,523**	**(168,853)**	**(131)**	-	**13,539**
Comprehensive income/(loss) for the period					
Loss	-	(1,533)	-	-	(1,533)
Total other comprehensive loss	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	**(1,533)**	-	-	**(1,533)**
Transactions with owners, recorded directly in equity					
Contributions by owners					
Transfer from Fair Value Reserve	-	-	131	-	131
Issue of ordinary shares pursuant to share purchase plan	932	-	-	-	932
Equity settled share-based payment transactions	-	-	-	-	-
Total transactions with owners	**932**	-	**131**	-	**1,063**
Closing balance as at 31 December 2013	**183,455**	**(170,386)**	-	-	**13,069**

The Consolidated Condensed Statement of Changes in Equity is to be read in conjunction with the notes to the half-year financial statements set out on pages 11 to 17.

Consolidated Condensed statement of financial position	Note	31 December 2014 $'000	30 June 2014 $'000
Assets			
Cash and cash equivalents		**1,189**	3,362
Investments	12	**133**	154
Trade and other receivables		**132**	1,828
Prepayments		**70**	46
Total current assets		**1,524**	5,390
Equity accounted Investments	13	**4,398**	4,158
Receivables		**5,760**	2,352
Property, plant and equipment		**21**	23
Total non-current assets		**10,179**	6,533
Total assets		**11,703**	11,923
Liabilities			
Trade and other payables		**294**	254
Employee benefits		**141**	185
Total current liabilities		**435**	439
Employee benefits		**17**	13
Total non-current liabilities		**17**	13
Total liabilities		**452**	452
Net assets		**11,251**	11,471
Equity			
Share capital	7	**183,451**	183,483
Fair Value Reserve		**-**	-
Foreign currency translation reserve		**367**	(225)
Accumulated losses	7	**(172,567)**	(171,787)
Total equity		**11,251**	11,471

The Consolidated Condensed Statement of Financial Position is to be read in conjunction with the notes to the half-year financial statements set out on pages 11 to 17.

Consolidated Condensed statement of cash flows for the six months ended 31 December

	31 December 2014 $'000	31 December 2013 $'000
Cash flows from operating activities		
Cash receipts	**308**	**631**
Cash paid to suppliers and employees	**(1,496)**	**(1,738)**
Interest received	**37**	**342**
Net cash used in operating activities	**(1,151)**	**(765)**
Cash flows from investing activities		
Sale of listed equity investments	**232**	**-**
Loans to associated entities – Coal Holdings USA, LLC (CHUSA)	**(1,211)**	**(918)**
Acquisition of property, plant and equipment	**(2)**	**(13)**
Net cash used in investing activities	**(981)**	**(931)**
Cash flows from financing activities		
Proceeds from issue of shares pursuant to share purchase plan	**-**	**-**
Share issue costs	**(32)**	**(54)**
Net cash used in financing activities	**(32)**	**(54)**
Net (decrease) / increase in cash and cash equivalents	**(2,164)**	**(1,750)**
Cash and cash equivalents at 1 July	**3,362**	**11,869**
Effects of exchange rate changes on cash	**(9)**	**312**
Cash and cash equivalents at 31 December	**1,189**	**10,431**

The Consolidated Condensed Statement of Cash Flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 11 to 17.

1 Reporting entity

Avexa Limited (the 'Company') is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 December 2014 comprise the Company and its subsidiary entities (together referred to as the "Group" and individually as "Group entities").

2 Statement of compliance

The condensed consolidated interim financial statements are a general purpose financial report which has been prepared in Australian dollars in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Group as at and for the year ended 30 June 2014.This condensed consolidated financial report was approved by the Board of Directors on 26 February 2015.

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 have been rounded off to the nearest thousand dollars, unless otherwise stated.

3 Significant accounting policies

Except as described below, the accounting policies applied by the Group in this condensed consolidated interim financial statements are the same as those applied by the Group in its financial report as at and for the year ended 30 June 2014.

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 half year are:

- AASB 2014-1 Amended to Australian Accounting Standards Part A (2010-2012) cycle and 2011-2013 cycle and Part C Materiality
- ASSB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instrument
- AASB 2012-3 Amendment to Australian Accounting Standards – Offsetting Financial Assets

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 interim financial statements

4 Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report as at and for the year ended 30 June 2014.

5 Basis of preparation

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 interim 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.

Since executing the investment in and loan to Coal Holdings USA LLC (CHUSA) in the 2014 financial year, the Company's cash reserves have significantly reduced. The ability of the Company and 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 coal prices, sales volumes, working capital requirements and production costs; and
- Raising funds from other sources which may include raising capital or monetising the consolidated entity's equity investment in CHUSA or its existing portfolio of intangible assets.

As a result of these factors, there exists a material uncertainty which may cast doubt about the ability of the Company and the consolidated entity to continue as a going concern.

After making enquiries and considering all potential sources of funding available to the Group, and also having regard to the uncertainties described above, the Directors have a reasonable expectation that the Company and the consolidated entity will have adequate resources to continue to meet its obligations as and when they fall due. For these reasons, the going concern basis has been adopted in preparing the interim consolidated financial statements.

6 Net finance income/(expense)

	31 December 2014	31 December 2013
	$'000	$'000
Interest income on cash and cash equivalents	**31**	190
Interest income on loan receivable	**141**	
Realised gain on investment in listed equities	**176**	-
(Impairment Charge) / impairment reversal	**34**	(310)
Impairment Charge – Transfer from Fair Value Reserve	**-**	(131)
Total Net Finance Income/(Expense)	**382**	(251)

7 Issued capital and accumulated losses

(i) Issued and paid up capital

925,650,566 (2013: 925,650,566) ordinary shares, fully paid	**183,451**	**183,455**

The following movements in ordinary shares were recorded during the half-year ended 31 December 2014.

	2014	2013	**2014**	2013
	Number of shares	Number of shares	**$'000**	$'000
Balance brought forward as at 1 July	**925,650,566**	847,688,779	**183,483**	182,523
Issue of shares pursuant to Share Purchase Plan	-	77,961,787	(32)	932
Balance carried forward as at 31 December	**925,650,566**	925,650,566	**183,451**	183,455

There were no dividends paid or proposed during the period ended 31 December 2014 or in the previous interim period. 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 Group, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

(ii) Employee Options

There were nil (2013: nil) options to acquire ordinary shares issued during the half-year ended 31 December 2014 under the Avexa Employee Share Option Plan ('ESOP').

There were no options exercised in the half year (2013: nil) and nil (2013: nil) options expired or were cancelled during the period.

(iii) Accumulated losses

	31 December 2014	31 December 2013
	$'000	$'000
Accumulated losses brought forward as at 1 July	**(171,787)**	(168,853)
Loss for period	**(780)**	(1,533)
Equity component of share-based payments	**-**	-
Accumulated losses carried forward as at 31 December	**(172,567)**	(170,386)

8 Events subsequent to balance date

On January 5th, 2015, the Group announced that it had raised $795,500 from a Share Purchase Plan (SPP) announced on 24 November 2014 as part of a capital management initiative. The proceeds from the SPP will provide further working capital for the Group, including the development of ATC.

The Group allotted and issued new shares under the SPP on 5 January 2015. All eligible holders who submitted valid applications for shares under the SPP were accepted in full. Under the SPP shares were offered at $0.014.

There has not arisen since the end of the half-year any other item, transaction or event of a material and unusual nature 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.

9 Contingent liabilities and contingent assets

There are no known significant contingent liabilities or contingent assets as at the date of this report.

10 Related parties

Transactions with associates and other related parties

	31 December 2014	31 December 2013
	$'000	$'000
Loans to associates and related interest	**1,211**	1,567
Interest income on loan to associate	**141**	45

An additional $1.2M was loaned to Coal Holdings USA, LLC (CHUSA) during the current period. The working capital loan to CHUSA is secured by a fixed and floating charge over the assets of CHUSA and its subsidiary company, North Pratt Coal Holdings LLC. The loan has been provided on normal commercial terms and conditions being an interest rate of 6 per cent.

Outstanding balances with associates and other related parties

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

	31 December 2014	31 December 2013
	$'000	$'000
Other receivables	**99**	-
Loans to associates	**5,760**	1,567

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

11 Financial instruments

The Group did not enter into any foreign currency hedging arrangements or other derivative financial instruments during the financial period.

12 Investments

	31 December 2014	31 December 2013
Investments in equity instruments	**$'000**	$'000
Balance brought forward as at 1 July	**154**	659
Net change in fair value of investments in equity Instruments	**-**	-
Reversal of impairment/(impairment) of investments in equity instruments	**34**	(310)
Acquisitions	**-**	-
Disposals	**(55)**	-
Investments carried forward as at 31 December	**133**	349

The Group's investments 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 market price quotation at period end.

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

13 Investments Accounted for Using the Equity Method

Investments in Associates and Joint Venture

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

				Percentage of Ownership Interest Held at End of The Period		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	31 Dec	**30.0**	-	**(350)**	-

	31 December 2014 $'000	31 December 2013 $'000
Results of associates		
Shares of associate's loss before income tax	**(350)**	-
Share of associate's income tax expense	**-**	-
Share of net loss of associate accounted for using the equity method	**(350)**	-
Movements in carrying amounts of investments		
Balance at 1 July	**4,158**	-
Investments in associates acquired during the year	**-**	-
Share of net profit/(loss) of associate accounted for using the equity method	**(350)**	-
Movement in foreign currency translation	**590**	-
Less distributions from associate	**-**	-
Balance at 31 Dec	**4,398**	-

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

13 Investments Accounted for Using the Equity Method (continued)

Investments in Associates and Joint Venture (continued)

	Consolidated	
	31 December 2014 $'000	31 December 2013 $'000
Summary of profits and loss of the associate on 100% basis		
Revenue	**-**	-
Other comprehensive income/(loss)	**-**	-
Total comprehensive income/(loss)	**(1,168)**	-
Net profit/(loss) after tax	**(1,168)**	-
Summary of balance sheet of the associate on a 100% basis		
The assets and liabilities of the associate are:		
Current assets	**2,270**	-
Non-current assets	**28,373**	-
Total assets	**30,643**	-
Current liabilities	**4,610**	-
Non-current liabilities	**12,250**	-
Total liabilities	**16,860**	-
Net assets	**13,783**	-

Impairment Testing

The recoverability of the Group's investment in and loan to CHUSA is dependent upon cash flows to be generated from the successful execution of the business plans of CHUSA, which are in turn dependent on a number of factors that may or may not occur as planned including assumptions relating to coal prices, sales volumes, working capital requirement and production costs. Consequently, a material uncertainty exists as to whether the carrying value of the investment in and loan to CHUSA are fully recoverable.

The directors have reviewed the Group's ability to recover its investment in and loan to CHUSA, taking into consideration the current phase of the business plan, the ability to repay short-term financing obligations, the long term projected cash flows from the project, and the estimated fair value of the equity investment at 31 December 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 Group's investment in CHUSA and/or the loan provided to CHUSA in future periods.

14 Earnings per share

(i) **Earnings reconciliation**	**31 December 2014**	31 December 2013
Net loss:	**$'000**	$'000
Basic earnings	**(780)**	(1,533)
Diluted earnings	**(780)**	(1,533)

14 Earnings per share (continued)

(ii) Weighted average number of shares used as the denominator	Number	Number
Number for basic earnings per share:		
Ordinary shares	**925,650,566**	851,078,422
Number for diluted earnings per share:		
Ordinary shares	**925,650,566**	851,078,422
Effect of share options on issue	-	-
Weighted average number of ordinary shares (diluted)	**925,650,566**	851,078,422

15 Segment reporting

Information about reportable segments for the six months ended 31 December 2014

	Research & Development		Investments		Total	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000
External revenues	-	-	-	-	-	-
Inter-segment revenue	-	-	-	-	-	-
Interest revenue	31	142	141	48	172	190
Finance expense	-	-	-	-	-	-
Impairment charge	-	-	-	(441)	-	(441)
Share of net profit/(loss) of associate accounted for using the equity method	-	-	(350)	-	(350)	-
Other income	12	365	881	-	893	365
Reportable segment Profit/(loss) before tax	(1,442)	(1,091)	662	(442)	(780)	(1,533)
Reportable segment assets	1,412	11,600	10,291	1,916	11,703	13,516

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

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 Australian listed equities.

16 Group entities

Significant subsidiaries

For the six months ended 31 December 2014	Country of Incorporation	Ownership interest 31 December 2014	31 December 2013
AVI Capital Pty Ltd	Australia	100	100
Avexa Inc	USA	100	100
Avexa Ltd	UK	100	100
Avi Capital Inc	USA	100	100

AVEXA LIMITED ABN 53 108 150 750

Directors' declaration

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

(a) the condensed financial statements and notes set out on pages 11 to 17, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the six month period ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

Dated at Melbourne this 26th day of February 2015.

Signed in accordance with a resolution of the directors.

Mr I Kirkwood
Chairman

Independent auditor's review report to the members of Avexa Limited

Report on the financial report

We have reviewed the accompanying half-year financial report of Avexa Limited (the company), which comprises the consolidated condensed statement of financial position as at 31 December 2014, consolidated condensed statement of profit or loss and other comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed statement of cash flows for the half-year ended on that date, notes 1 to 16 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 half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Avexa Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

KPMG

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Avexa Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Emphasis of matter relating to going concern and investment in and loan to Associate

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

i) As described in Note 5 to the consolidated interim financial statements, the Company is dependent on cash flows expected to be generated from its investment in and loan to an associated company, Coal Holdings USA LLC ("CHUSA"), and securing additional sources of funding in order to meet operating expenditure requirements. This matter indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern, and therefore the Company and the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

ii) As described in Note 13 to the consolidated interim financial statements, the ability of the Company to recover its investment in and loan to CHUSA is dependent on the successful execution of CHUSA's business plan and a number of other factors detailed in Note 13 that may or may not occur as planned. As a result there is material uncertainty as to whether the carrying amount of the investment and the loan will be recovered at the amounts stated in the consolidated interim financial report.

KPMG

KPMG

BW Szentirmay
Partner

Melbourne

26 February 2015