AVEXA

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ASX RELEASE

AVEXA LODGES AUDITED FINANCIAL RESULTS FOR THE 2009 YEAR

MELBOURNE, AUSTRALIA, 27 August 2009, Avexa Limited (ASX: AVX) today lodged its Preliminary Final Report and audited financial accounts for the full year to 30 June 2009. The company reported a net loss of $36.2 million for the 2009 financial year, in line with the $36 million loss of 2008.

"I am pleased with the significant advancements Avexa has made over the past year with all of our programs," said Dr Julian Chick, Chief Executive Officer. "With sufficient funding available, we look forward to continued progress over the next fiscal year to enhance the value of each program and Avexa as a whole. The company continues to seek value creating opportunities for all its programs ."

Highlights for the year were as follows:

- Reported positive Week 96 data for apricitabine (ATC) from the ongoing Phase II extension study. The results showed that after up to 96 weeks of treatment with ATC, there were undetectable HIV levels in over 80% of patients, no patient had developed a signature resistance mutation to ATC, and the excellent safety profile of ATC was maintained.
- Completed the dose determination component of the ATC Phase III trial, resulting in the recommendation by the Data Safety Monitoring Board of the 800mg dose for the remainder of the study. This has the potential to increase the commercial attractiveness of ATC, as the 800mg is easier to formulate into fixed dose combinations than higher doses.
- In August 2008 Avexa renegotiated its licence arrangements with Shire Canada Inc for its ATC program and consequently Avexa issued Shire with $5.7 million worth of new equity equal to 18.6 million shares.
- In May 2009 Avexa entered into a 6-month, worldwide exclusive option agreement with Tibotec Pharmaceuticals for Avexa's HIV Integrase program.
- Receipt of a grant from the Australia-China Special Fund for Science and Technology Cooperation to support Avexa's collaboration in China for Avexa's other HIV programs. The grant is in excess of $190,000 and will contribute towards a combined total investment of $600,000, to be shared between Avexa and its Chinese partner.
- Raised $18 million (before costs) through the April 2009 Rights Issue and associated placements.
- Reinvigorated the Board of Directors to include the addition of Mr David Bottomley, Mr Joe Baini, and Mr Lawrence Gozlan.
- In July 2009, reached agreement with the Commonwealth Scientific and Industrial Research Organization (CSIRO), as part of its Australian Growth Partnerships program, for up to $2million of funding for Avexa's hepatitis C (HCV) program.
- The Company held cash assets of $18.8million at 30 June 2009.

About Avexa

Avexa Limited is a Melbourne-based biotechnology company with a focus on research and development of small molecules for the treatment of infectious diseases. Avexa has dedicated resources and funding for key projects including apricitabine (ATC), its HIV integrase program, its HCV polymerase program and an antibiotic program for antibiotic-resistant bacterial infections. The Company's lead program, ATC, is an anti-HIV drug that has successfully completed the 16 week dose determination step of its worldwide Phase III trial.

For more information:

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Rule 4.3A

Appendix 4E

Preliminary final report for the year ended 30 June 2009

Name of entity:

Avexa Limited

ABN:

53 108 150 750

Results for announcement to the market

	$A'000
Revenue from ordinary activities:	Decrease of 42% to 3,298
Loss from ordinary activities after tax attributable to members:	Increase of 0.3% to (36,218)
Net loss for the year attributable to members:	Increase of 0.3% to (36,218)

Dividends

It is not proposed to pay dividends.

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial year ended 30 June 2009.

No explanation considered necessary to explain any of the above other than as provided within this report.

Commentary on results for the year and Significant Information

Review and results of operations

In the 2009 financial year the Company commenced its Phase III clinical trial programme for its leading product, apricitabine or ATC, and received positive data from the 96 week Phase IIb study for the same drug. The HIV integrase and antibacterial projects have also progressed during the year towards preclinical studies. The Company has also commenced activity in HCV through a Chinese based collaboration and a recently announced collaboration with CSIRO. Details of the projects referred to above are provided in the following paragraphs.

Apricitabine (ATC)

Treatment of human immunodeficiency virus (HIV) infection involves a cocktail of drugs, usually two nucleoside reverse transcriptase inhibitors (NRTIs) in combination with another drug(s) from a different class of anti-HIV drug. Apricitabine (ATC) is Avexa's NRTI for the treatment of HIV infection and, like other NRTIs, acts by inhibiting the HIV-1 reverse transcriptase enzyme, which is essential for replication of the virus. One of the challenges in the treatment of HIV infection is the development of drug resistance, which is a major cause of treatment failure. As well as showing antiviral activity against wild-type (natural) HIV, ATC is active against virus with various mutations in the reverse transcriptase that cause resistance to other NRTIs, including the M184V mutation (associated with resistance to lamivudine and emtricitabine) and thymidine analogue mutations (TAMs, associated with resistance to zidovudine and stavudine). 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.

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, which may promote treatment adherence. Treatment of HIV infection usually involves a combination of anti-HIV drugs in order to obtain maximal viral suppression as well as other drugs for the overall management of HIV symptoms (e.g., for the prevention/treatment of opportunistic infections). The administration of more than one drug leads to the possibility of drug-drug reactions which may reduce the effectiveness and/or increase the toxicity of the drug(s). ATC is unusual in that it has been shown to have few interactions with the kinds of drugs that are commonly used in the treatment of HIV. In addition, resistance to ATC itself has not been observed during clinical trials of ATC. These properties of ATC indicate that it should be able to be given long term, which is necessary for the successful treatment of HIV, without its effectiveness being limited by side effects, adverse interactions with other drugs or the development of resistance.

The development of ATC has continued in the last year, with completion of the initial two-dose component of Avexa's Phase III clinical trial of ATC. The overall aim of this Phase III trial is to confirm that ATC reduces HIV-1 viral replication in HIV-1-infected patients who have the M184V mutation and who have failed treatment with lamivudine or emtricitabine. Data from the earlier Phase IIb study (which was conducted in similar patients) previously established this; the Phase III study now seeks to confirm this in a larger population of patients from many different countries where ATC could be used. The first component of the study was designed to determine which of two doses of ATC (800mg or 1200mg, both twice daily) would be selected for the remainder of the study. An independent Data and Safety Monitoring Board reviewed the safety and efficacy results when a pre-defined, small number of patients had reached Week 16 of the trial and recommended selection of the 800mg dose of ATC as the optimum dose to continue the rest of study. The 800mg dose is considerably easier to formulate into fixed dose combinations than the 1200mg dose, thus increasing the commercial potential for ATC. The trial is continuing with two arms, comparing the efficacy, safety and tolerability of the 800mg ATC dose with that of lamivudine (150mg).

The Phase III study is the cornerstone of the final program for a marketing application and is being conducted in over 130 specialist HIV centres in 15 countries. ATC has fast-track approval status from the US Food and Drug Administration (FDA).

The 48-week results of the Phase 2b study were reported last year and showed that the improvements in viral load and CD4 cells (cells that are normally destroyed by HIV) observed after 24 weeks of treatment with ATC were maintained or further improved after 48 weeks of treatment. Patients who had received lamivudine for the first 24 weeks of the study and then switched to ATC showed marked improvements in viral load and CD4 cells at Week 48. Patients who completed this study were eligible to participate in an open-label extension study (800mg ATC twice daily plus background antiretroviral therapy) and the interim results from this study, reported in March of this year, provide further long-term data on the efficacy and safety of ATC. The Week 96 results showed durable inhibition of viral replication with around 82% of patients having undetectable levels of HIV-1 RNA (<50 copies/mL). Importantly, after 96 weeks of treatment with ATC, no resistance to ATC was observed. ATC continues to exhibit an excellent safety profile, with no serious adverse events related to ATC reported to Week 96

and no patient withdrawing from the study because of side effects related to ATC. Importantly, patients found it easy to take ATC for long periods; even after 96 weeks, patients were still taking more than 95% of their ATC dose correctly. Patients often stop taking their HIV medications properly as time goes on, in many cases because the side effects become intolerable. These results attest to the long-term safety and tolerability of ATC and also show that ATC may be taken for a long period of time without loss of activity. It is expected that the final results from this study (at Week 144) will be reported in the first half of 2010.

Oral and poster presentations on ATC have been made at a number of international conferences over the past year, including at the Ninth International Congress on Drug Therapy in HIV Infection in Glasgow in November 2008 and at the XVIII International HIV Drug Resistance Workshop in Florida in June 2009. Such presentations increase the awareness of ATC within the HIV field and provide the opportunity for discussion of data on ATC with other conference attendees with experience in many different aspects of HIV research and treatment.

Avexa continues to interact with the Scientific Advisory Board (SAB) for ATC, which consists of HIV investigators and experts throughout the world and provides objective feedback and guidance on the development of ATC. Avexa has provided updates on the progress of ATC, including the Phase II study results and the Week 16 dose decision in the ongoing Phase III study, and the SAB members have discussed the data and given their views on the best approach to advance the development of ATC. Overall, the SAB members see a valuable role for ATC in the treatment of patients with drug-resistant HIV.

Drug discovery and development

HIV Integrase

Avexa's integrase program has made significant progress over the last year. The aim of this program is to identify compounds that can inhibit HIV integrase, the enzyme responsible for inserting the viral genome into the host cell DNA, which is a required step in HIV replication. Merck's raltegravir (Isentress®) is the first integrase inhibitor to be approved by the US FDA. Raltegravir is effective in reducing viral load in HIV-infected patients, however, its use has been accompanied by the emergence of mutations in the viral integrase that confer resistance to raltegravir. Therefore, as well as testing compounds against the wild-type virus, Avexa is assessing the activity of these compounds against HIV that is resistant to raltegravir. Over the last year, Avexa has successfully identified several series of compounds with activity as inhibitors of integrase. Importantly, the lead anti-integrase compounds are also able to inhibit raltegravir-resistant virus because they interact with the HIV integrase in a different way from raltegravir. The aim is to identify a clinical candidate from this program.

The promise of Avexa's integrase program is reflected in the exclusive option agreement signed with Tibotec Pharmaceuticals in May 2009. This is a 6-month exclusive option that provides an exclusivity period for Avexa and Tibotec to formalize a collaborative research and license agreement while Tibotec continues to review the Avexa integrase inhibitor portfolio. Tibotec has considerable experience in HIV drug development which would be of great benefit to the integrase program.

Other HIV programs

In February 2009, Avexa received a grant from the Australia-China Special Fund for Science and Technology Cooperation to support Avexa's collaboration with TargetDrug in China. This grant is in excess of A$190,000 and will contribute towards a combined total investment of A$600,000, which is shared between Avexa and TargetDrug. The grant will fund the synthesis and antiviral assay of new antiviral molecules and also the establishment of compound-profiling assays, which will be used to screen the compounds for optimal drug-like properties to aid the selection of potential clinical candidates.

Antibiotic Resistant Infections

Resistance to antibiotics such as vancomycin is a significant medical problem. Avexa's antibacterial program is focussed on identifying compounds with antibacterial activity against antibiotic-resistant microorganisms and has generated a series of novel compounds with potent antibacterial activity against a range of microorganisms, including strains resistant to the antibiotics vancomycin, methicillin and mupirocin. A lead molecule, AVX13616, has been selected for pre-clinical testing. This compound is as active as the standard of care antibiotic mupirocin in a mouse nasal decolonisation model, but demonstrates a vastly superior dosing regime. These results were presented in a poster at the 2008 Interscience Conference on Antimicrobial Agents and Chemotherapy/Infectious Diseases Society of America, held in Washington in October 2008. Based on these and other results, AVX13616 has been identified for development for topical indications including nasal decolonisation and/or wound infection/catheter-related infections.

Further studies of AVX13616 have shown it to also possess good antibacterial activity against various strains of Clostridium difficile and against mupirocin-resistant strains of Staphylococcus aureus. The activity of AVX13616 against mupirocin-resistant S. aureus is of significance as mupirocin resistance in S. aureus appears to be increasing in many parts of the world. C. difficile infection is typically treated by vancomycin and metronidazole, however, these drugs are not always effective and the prevalence of drug-resistant strains of C. difficile is increasing, indicating that there is a need for new drugs. AVX13616 was found to have good antibacterial activity against the five C. difficile strains tested, including those resistant to other antibiotics. These studies add to the types of microorganisms known to be susceptible to AVX13616 and thus extend the possible applications for this compound.

Initial pre-clinical studies found that bacteria resistant to AVX13616 were only slowly generated, which is potentially advantageous as it suggests that there is a high genetic barrier to resistance to AVX13616. Electron microscopy studies suggested that resistance to AVX13616 arises from changes in the bacterial cell wall, which appeared morphologically different compared to the cell wall of normal bacteria that are still susceptible to AVX13616. This is in line with the initial target for this series of compounds, which were directed at cell wall synthesis. These and other studies are being conducted to investigate the mode of action of AVX13616.

Hepatitis C Virus (HCV)

Hepatitis C is an infectious disease affecting over 180 million people globally and is a leading cause of chronic liver disease resulting in liver inflammation, cirrhosis and liver cancer. The current standard of care is a combination of interferon and the antiviral drug ribavirin, however, this treatment is effective in only about half of HCV-infected patients and may be accompanied by serious side effects. Thus, there is a significant unmet medical need for the treatment of disease caused by HCV and Avexa has set the goal of finding an orally bioavailable, once-a-day drug for the treatment of HCV infection. We have screened a number of libraries from diverse sources and identified a number of promising hits, which our medicinal chemists are currently optimising using chemical structure/activity based design and computer-aided modelling.

During the last year, Avexa has received recognition of the value of its HCV program in the form of funding from new sources. In July of this year it was announced that the Commonwealth Scientific and Industrial Research Organisation (CSIRO) will invest up to A$2M in Avexa's HCV program through the CSIRO's Australian Growth Partnerships program, which is a competitive, merit-based pilot funding program managed by CSIRO. CSIRO has been allocated funds by the Commonwealth Government to provide funding to small and medium enterprises with potential for strong growth to purchase CSIRO research and development capability and intellectual property. This Avexa/CSIRO collaboration will initially focus on the identification of small molecule inhibitors targeting the NS5B RNA polymerase, which is essential for the replication of HCV.

Capital and corporate structure

During the financial year ended 30 June 2009 the following material movements in share capital occurred:

- During August 2008 and September 2008, 18,641,839 ordinary shares were issued for $5,748,500 (US dollar equivalent value of $5,000,000) in accordance with the ATC Licence Agreement between Avexa Limited and Shire Biochem Inc, as amended on 26 August 2008; and
- In April 2009, 256,405,525 ordinary shares were issued at a price of $0.07 per share pursuant to a 1 for 2 rights issue and related placements of shares, raising $17,948,000 before costs.

During the year the Company incurred expenses of $1,077,000 ($573,000 net of break fees received) in regard to a failed merger transaction with Progen Limited.

The company maintains a legal presence in UK and US through a wholly owned subsidiary in each country. During the year the decision was made to no longer directly employ staff in the US. The US and UK entities have no employees at 30 June 2009 and are maintained at minimum cost through representative offices. Contract personnel are engaged as required to assist with overseas activities.

Statement of financial performance (Income statement)
For the year ended 30 June 2009

	Note	**Current period - $A'000**	Previous corresponding period - $A'000
Licence fee and royalty income		-	-
Other income from ordinary activities		3,298	5,707
Total revenue from ordinary activities	1(a)	**3,298**	**5,707**
Contract research and development costs	1(c)	(27,125)	(30,039)
Employee expenses		(5,797)	(5,936)
Share-based payment expense		(561)	(535)
Depreciation		(263)	(187)
Merger proposal costs		(1,077)	-
Occupancy		(1,232)	(1,111)
Consulting		(361)	(382)
Professional costs		(270)	(269)
Travel and accommodation		(582)	(895)
Raw materials and consumables used		(432)	(488)
Asset management expenses		(255)	(299)
Insurance		(207)	(238)
Corporate administration		(244)	(256)
Intellectual property		(360)	(558)
Other expenses from ordinary activities	1(b)	(750)	(607)
Profit / (loss) from ordinary activities before related income tax expense		**(36,218)**	**(36,093)**
Income tax expense relating to ordinary activities		-	-
Net profit / (loss)		**(36,218)**	**(36,093)**
Net profit attributable to outside equity interests		-	-
Total changes in equity from non-owner related transactions attributable to members of the Company		**(36,218)**	**(36,093)**
Basic earnings per share (ordinary shares)	13	**(7.0)**	**(7.7)**
Diluted earnings per share (ordinary shares)	13	**(7.0)**	**(7.7)**

Statement of changes in equity for the year ended 30 June 2009

	Issued capital $'000	Accumulated losses $'000	Total Equity $'000
Opening balance as at 1 July 2008	**137,238**	**(81,462)**	**55,776**
Non-profit items recognised directly in equity:			
Equity settled share-based payment transactions	-	561	561
Non-profit items recognised directly in equity	**-**	**561**	**561**
Loss for the period	-	(36,218)	(36,218)
Total recognised income and expense for the period	**-**	**(36,218)**	**(36,218)**
Shares issued on conversion of options	-	-	-
Shares issued to Shire (Note 18)	5,749	-	5,749
Shares issued pursuant to Rights Issue and placement	17,948	-	17,948
Transaction costs relating to Rights Issue and placement	(1,033)	-	(1,033)
Equity-related transactions	**22,664**	**-**	**22,664**
Closing balance as at 30 June 2009	**159,902**	**(117,119)**	**42,783**

Statement of changes in equity for the year ended 30 June 2008

	Issued capital $'000	Accumulated losses $'000	Total Equity $'000
Opening balance as at 1 July 2007	**137,194**	**(45,904)**	**91,290**
Non-profit items recognised directly in equity:			
Equity settled share-based payment transactions	-	535	535
Non-profit items recognised directly in equity	**-**	**535**	**535**
Loss for the period	-	(36,093)	(36,093)
Total recognised income and expense for the period	**-**	**(36,093)**	**(36,093)**
Shares issued on conversion of options	48	-	48
Transaction costs relating to prior year placement and Prospectus	(4)	-	(4)
Equity-related transactions	**44**	**-**	**44**
Closing balance as at 30 June 2008	**137,238**	**(81,462)**	**55,776**

Statement of financial position (Balance sheet)
As at 30 June 2009

	Note	**Current period - $A'000**	Previous corresponding period - $A'000
Current assets			
Cash assets	3	18,827	43,411
Receivables	4	278	353
Other	7	178	80
Total current assets		**19,283**	**43,844**
Non-current assets			
Intangibles	5	25,762	20,013
Property, plant and equipment	6	732	926
Total non-current assets		**26,494**	**20,939**
Total assets		**45,777**	**64,783**
Current liabilities			
Payables	8	2,456	8,449
Employee benefits	9	417	515
Deferred income	10	82	-
Total current liabilities		**2,955**	**8,964**
Non-current liabilities			
Employee benefits	9	39	43
Total non-current liabilities		**39**	**43**
Total liabilities		**2,994**	**9,007**
Net assets		**42,783**	**55,776**
Equity			
Issued capital	11	159,902	137,238
Accumulated losses	2	(117,119)	(81,462)
Total equity		**42,783**	**55,776**

Statement of cash flows
For the year ended 30 June 2009

	Note	**Current period - $A'000**	Previous corresponding period - $A'000
Cash flows from operating activities			
Cash receipts in the course of operations		1,785	1,770
Cash payments in the course of operations		(44,070)	(35,693)
Interest received		1,428	4,661
Borrowing costs paid		-	-
Income taxes paid		-	-
Net cash used in operating activities	23	**(40,857)**	**(29,262)**
Cash flows from investing activities			
Payments for property, plant and equipment		(69)	(767)
Payments for intangibles – marketing licence		-	(3,478)
Merger proposal costs (net of break fees received)		(573)	-
Net cash used in investing activities		**(642)**	**(4,245)**
Cash flows from financing activities			
Proceeds from issues of shares		17,948	48
Costs of raising share capital		(1,033)	(4)
Net cash provided by financing activities		**16,915**	**44**
Net (decrease) / increase in cash held		**(24,584)**	**(33,463)**
Cash at the beginning of the financial year		**43,411**	**76,874**
Cash at the end of the financial year	22	**18,827**	**43,411**

Notes to the Statement of financial performance

1 Revenue and expenses from ordinary activities

(a) Revenues	**Current period - $A'000**	Previous corresponding period - $A'000
Interest income	1,460	4,348
Government grants	819	891
Lease income	515	468
Merger proposal break fees	504	-
Total revenue from ordinary activities	**3,298**	5,707

(b) Expenses		
Depreciation of:		
- Plant and equipment	(263)	(187)
Contract research and development (Note 1(c))	(27,125)	(30,039)
Amounts transferred to/from provisions for:		
- Employee benefits	102	(426)
Other expenses:		
- Advertising and promotion	(376)	(179)
- Workplace administration	(207)	(251)
- Finance expenses	(99)	(20)
- Other expenses	(68)	(157)
Total Other expenses	**(750)**	**(607)**

(c) Research and Development (R&D)

Contract research and development expenditure	(27,125)	(30,039)
Direct research and development expenditure	(5,531)	(6,458)
Total R&D expenditure for the year	**(32,656)**	**(36,497)**

Notes to the Statements of changes in equity, financial position and cash flows

2 Accumulated losses

	Current period - $A'000	Previous corresponding period - $A'000
Accumulated losses at the beginning of the financial year	(81,462)	(45,904)
Net loss attributable to members	(36,218)	(36,093)
Net transfers from / (to) reserves	-	-
Net effect of changes in accounting policies	-	-
Share-based payment expense	561	535
Dividends and other equity distributions paid or payable	-	-
Accumulated losses at the end of the financial year	**(117,119)**	**(81,462)**

3 Cash assets

Cash at bank and on hand	244	542
Bank short term deposits	18,583	42,869
Cash assets	**18,827**	**43,411**

Interest on cash at bank is credited at prevailing market rates. The weighted average interest rate at reporting date was 3.4% (2008: 7.6%).

4 Receivables

Current		
Other debtors	**278**	**353**

5 Intangibles

Non-Current		
North American marketing licence for apricitabine (ATC) – at cost	25,762	20,013
Intellectual property – at cost	12,000	12,000
Less: Accumulated amortisation	(12,000)	(12,000)
	-	-
Total intangibles	**25,762**	**20,013**

On 26 August 2008 the Company announced that it had renegotiated its licence arrangements with Shire plc for its apricitabine (ATC) program. As part of the renegotiation, Avexa issued Shire with USD5 million (AUD5.749 million) worth of new equity equal to 18.6 million shares. Therefore, the cost of the North American marketing licence for apricitabine increased by AUD5.749 million. (See Note 18).

At year end, a risk-adjusted net present value model for the ATC project based on a 20 year timescale was used to assess the recoverable amount of the intangible asset for asset impairment testing purposes. The model incorporates assumptions in respect of each of the following components:

- The anticipated market for the product, 5% estimated annual growth of that market, penetration of that market by ATC and time taken to ramp up sales to the peak market penetration.
- The anticipated sales price and cost of sales for the product based on the market positioning for the product and existing manufacturing arrangements.
- The number of patients required to undertake the Phase III studies and continue to extend the Phase IIb study and the anticipated cost per patient based on third party quotations and contractual arrangements.
- The anticipated time frame to complete the pivotal filing studies and secure FDA and other regulatory marketing approvals.
- The royalty costs payable to Shire arising from sales of the product, based on current contracted rates.
- A discount rate of 18% associated with a pharmaceutical product that has successfully completed Phase IIb trials.
- The risks associated with not reaching the Phase III clinical trial endpoint or securing the necessary regulatory approvals.

Third party market data has been sourced where available and sensitivity analyses undertaken to arrive at an estimate of recoverable amount. Based on all the information available at the time of signing the financial report, the Company is satisfied that the recoverable amount of the intangible asset remains in excess of the carrying value at year end.

Inherent in the above recoverable amount assessment is the assumption that the Company will continue to have access to sufficient funding in order to develop or otherwise exploit the future net cash inflows associated with the ATC project.

6 Property, plant and equipment

	Current period - $A'000	Previous corresponding period - $A'000
Plant and equipment (at cost)	1,318	1,249
Less: Accumulated depreciation	(586)	(323)
Property, plant and equipment	**732**	**926**

7 Other assets

Prepayments	**178**	**80**

8 Payables

Trade creditors and accruals	2,456	8,449
Other creditors	-	-
	2,456	**8,449**

9 Employee benefits

Current		
Employee benefits	**417**	**515**
Non-current		
Employee benefits	**39**	**43**

The discount rate adopted in the present value calculation of non-current employee entitlements is 6.0% (2008: 6.2%). The carrying value of employee entitlements approximates fair value.

10 Deferred income

	Current period - $A'000	Previous corresponding period - $A'000
Grant income received relating to future periods	**82**	-

11 Issued capital

Issued and paid up capital

	Number	Number
681,080,539 (2008: 406,033,175) ordinary shares, fully paid	**681,080,539**	406,033,175

Movements in issued capital during the year were as follows:

	$'000	Number
Issued capital at the beginning of the financial year	137,238	406,033,175
Issue of shares upon exercise of options	-	-
Issue of shares to Shire (see Note 18)	5,749	18,641,839
Issue of shares pursuant to Rights Issue	14,863	212,337,507
Issue of shares pursuant to placement	2,035	29,068,018
Issue of shares pursuant to placement	1,050	15,000,000
Transaction costs relating to prior year placements and prospectus offers	(1,033)	-
Issued capital at the end of the financial year	**159,902**	**681,080,539**

Options to acquire ordinary shares

During the financial year 12,260,000 (2008: 210,000) options were issued to employees under the Avexa Employee Share Option Plan, 7,505,000 (2008: 635,000) options held by employees lapsed or were cancelled and nil (2008: 170,000) were exercised. Movements in options for the 2009 financial year comprise the following:

Options	Exercise Price	No of options at beginning of year	Options granted	Options lapsed / cancelled	Options exercised	No of options at end of year
Total employee options	Various	10,500,000	12,260,000	(7,505,000)	-	15,255,000
Shire options	$0.704 #	4,000,000	-	-	-	4,000,000
Total options		**14,500,000**	**12,260,000**	**(7,505,000)**	**-**	**19,255,000**

Exercise price adjusted from 70.4 cents to 63.2 cents in accordance with ASX Listing Rule 6.22.

12 Net tangible assets per ordinary security

	Current period - $A'000	Previous corresponding period - $A'000
Net tangible assets	**17,021**	35,763
Issued share capital at reporting date	**Shares**	Shares
	681,080,539	406,033,175
Net tangible assets per ordinary security	**2.5 cents**	8.8 cents

13 Earnings per security (EPS)

	Current period	Previous corresponding period
a) Earnings reconciliation	**$A'000**	$A'000
Net loss:		
Basic earnings	**(36,218)**	(36,093)
Diluted earnings	**(36,218)**	(36,093)
b) Weighted average number of shares	**Number**	Number
Number for basic earnings per share:		
Ordinary shares	**459,963,231**	406,013,709
Ordinary shares - after applying adjustment factor under AASB 133 for the discounted issue price which applied for the April 2009 Rights Issue (prior year also adjusted).	**516,500,996**	470,412,046
Number for diluted earnings per share:		
Ordinary shares	**516,500,996**	470,412,046
Effect of share options on issue	**20,254,726**	14,862,616
	536,755,722	485,274,662

14 Returns to shareholders

There have been no returns to shareholders during the financial year.

15 Control gained over entities having material effect

There are no entities having material effect over which the Company gained control during or subsequent to the financial year ended 30 June 2009.

16 Loss of control of entities having material effect

There are no entities over which the Company lost control during or subsequent to the financial year ended 30 June 2009.

17 Material interests in entities which are not controlled entities

There were no material interests in entities other than controlled entities held at any time during or subsequent to the financial year ended 30 June 2009.

18 Non-cash financing and investing activities

On 26 August 2008 the Company announced that it had renegotiated its licence arrangements with Shire plc for its apricitabine (ATC) program. As part of the renegotiation, Avexa issued Shire with USD 5 million (AUD 5.749 million) worth of new equity equal to 18.6 million shares. These new shares, of which 14,913,471 were issued on 27 August 2008 and 3,728,368 were issued on 10 September 2008, are held in escrow for 12 months. Whilst other terms and conditions of the renegotiation remain confidential, Avexa believes that as a result of the renegotiation a substantially greater proportion of the future commercial value of ATC could accrue for the benefit of Avexa shareholders through a reduction of sales royalties and removal of future milestone payments.

There have been no other non-cash financing and investing transactions during either of the 2009 or 2008 financial years which have had a material effect on assets and liabilities of the Company.

19 Segment reporting

The Company comprises a single business segment (anti-infective research and development). Although the Company's clinical trials are conducted in a number of countries there is currently no income derived from these activities, as such activities are controlled from Australia. Although the Company has established overseas subsidiaries in the US and UK, the operations of these entities were immaterial. No segment reporting has therefore been prepared.

20 Factors affecting the results in the future

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 Company, the results of those operations, or the state of affairs of the Company in future financial years.

21 Franking credits available

There are no franking credits available at reporting date.

22 Reconciliation of cash

Reconciliation of cash at the end of the financial year (as shown in the statement of cash flows) to the related items in the accounts is shown in the following table.

	Current period - $A'000	Previous corresponding period - $A'000
Cash on hand and at bank	244	542
Bank short term deposits	18,583	42,869
	18,827	**43,411**

23 Reconciliation of loss from ordinary activities after related income tax to net cash used in operating activities

	Current period - $A'000	Previous corresponding period - $A'000
Loss from ordinary activities after income tax	(36,218)	(36,093)
Add / (less) non-cash items:		
- Depreciation and amortisation	263	187
- Share-based payment expense	561	535
- Merger proposal costs (net of break fees)	573	-
Change in assets and liabilities:		
- Increase / (decrease) in Employee benefits	(102)	172
- (Increase) / decrease in Receivables	75	(205)
- (Increase) / decrease in Other assets	(98)	(4)
- Increase / (decrease) in Deferred Income	82	(90)
- Increase / (decrease) in Payables	(5,993)	6,236
Net cash used in operating activities	**(40,857)**	**(29,262)**

24 Compliance statement

This report has been prepared in accordance with Australian Accounting Standards Australian Accounting Standards (including the Australian Accounting Interpretations).

This report is based on accounts which have been audited. The unqualified audit report by the auditor is attached.

Sign here:  Date: 27 August 2009

CFO & Company Secretary

Print name: Stephen Kerr

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 balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 29 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies 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 and fair presentation of the financial report 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 (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company'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 Company's financial position as at 30 June 2009 and of its performance for the 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).

Material uncertainty regarding the ability of the Company to continue as a going concern and the carrying value of intangible assets

Without qualification to the above opinion, we draw attention to Note 2(b) to the financial statements.

The ability of the Company to continue as a going concern and to recover the carrying value of its recorded intangible assets is dependent upon securing sufficient funding in order to progress existing projects and to provide sufficient working capital until such time as self-sustaining revenue streams are realised.

As detailed in Note 2(b) the Company is currently pursuing a number of commercial opportunities designed to provide funding in the short term. The outcome of these potential funding transactions cannot presently be determined with certainty. Accordingly, there is material uncertainty as to whether:

- the Company will continue as a going concern and therefore realise its assets and liabilities in the normal course of business and at the amounts stated in the financial report; and
- the Company will recover the carrying value of its recorded intangible assets which totalled $25.76 million at year end (30 June 2008: $20.01 million).

Report on the remuneration report

We have audited the Remuneration Report included in pages 9 to 16 of the Directors' Report for the year ended 30 June 2009. 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 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

B W Szentirmay
Partner
Melbourne
27 August 2009