AVEXA LIMITED ABN 53 108 150 750

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 2011 and the auditor's report thereon.

Principal activities

The principal activity of the Group during the course of the financial year was the research and development, for commercialisation, of anti-infective pharmaceutical programs and 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 576 Swan Street, Richmond, VIC 3121. Except as disclosed elsewhere in this Report, there have been no significant changes in the nature of these activities during the year.

Review and results of operations

On 14 July 2010 Avexa announced that it had entered into a licence agreement with the Shanghai Institute of Organic Chemistry (SIOC) to develop one of Avexa's earlier HIV integrase inhibitor series. Under the terms and conditions of the licence SIOC will be responsible for all future development costs for the program to be developed in China and will pay Avexa 50% of any net commercialisation revenues. Avexa retains all development and marketing rights for the program outside the China region.

This series of molecules has shown a high level of potency similar to the existing HIV integrase inhibitors on the market or in development. The synthesis of this series of molecules is relatively simple and provides opportunities in the Chinese market on a cost of goods basis compared to competitor products.

On 2 September 2010 Avexa announced that it had engaged The Bioadvisory Group Pty Ltd to undertake an independent review of the company's programs. The Bioadvisory Group is a corporate advisory firm that specialises in biotechnology commercialisation. The review was led by The Bioadvisory Group's Managing Director John Grew, who has more than 30 years experience in technology commercialisation and providing advice on operational improvement, market analysis and strategic reviews for companies in the life sciences sector.

The findings of the independent expert's evaluation can be summarised as follows: Apricitabine (ATC) program – Approach US Food and Drug Administration (FDA) with new trial design, and then approach potential partners assuming a positive response from FDA. If potential partners provide a positive response then proceed to Phase III trials. If support from potential partners is not forthcoming, then do not proceed with ATC program without external active support, for example from a charitable organisation or grant. Hepatitis C Virus (HCV) program – no further spend recommended. Antibiotic program – recommended pursuing a licensing arrangement with a company with expertise in the antibiotic field. HIV Integrase program – recommended that the program continue for a further 12 months to identify a preclinical candidate.

On 11 November 2010 Avexa announced that it had agreed to make a strategic investment in Allied Medical Limited, an unlisted public medical device and biotechnology company. Allied Medical is a medical technologies group with a significant interest in Coridon Pty Ltd, a vaccines-focused research and development company started by Professor Ian Frazer. The majority of the funds raised from Avexa's investment in Allied Medical will be used to pursue the Coridon technology. Avexa has now invested a total of $1.5 million (paid in two equal tranches) in Allied Medical. The first tranche, $750,000, was paid on 11 November 2010 and the second tranche was paid on 15 February 2011 as a consequence of Allied Medical's agreement to list on the ASX via a reverse takeover process with bioMD Limited (details of which were announced to the market by bioMD Limited on 15 February 2011).

On 14 July 2011 Avexa announced that it held 96 million ordinary shares in the newly merged Allied Healthcare Group. Allied Healthcare Group is the result of the June 2011 merger between BioMD (previously ASX:BOD) and Allied Medical Ltd. This represents a 16.9% shareholding in the company which was valued at $7.2 million based on the market closing price on 13 July 2011 (being the day after the shares were issued).

Allied Healthcare Group has four key businesses: Coridon - Pioneering DNA vaccine technology for the prevention of infectious diseases and cancers; Celxcel - Clinical development of regenerative tissue engineering technologies; Allied Medical Ltd - Sales and distribution of niche medical technologies and Medevco - Supply and distribution of quality medical devices.

On 18 November 2010 Avexa's board announced that it has entered into a license agreement with private Swiss drug development company Valevia Pharmaceuticals GmbH which could potentially yield revenues of up to $US65 million in milestone payments and royalties. Under the terms and conditions of the agreement Valevia will fund all future development of Avexa's preclinical antibacterial drug program while Avexa will initially retain control of managing the intellectual property. The licence covers the entire Avexa antibacterial portfolio. Avexa is entitled to receive up to US$65 million plus royalties upon achievement of significant clinical development and commercial milestones for the lead program. In the event other compounds covered by Avexa's intellectual property are developed by Valevia, Avexa would be entitled to additional milestone and royalty payments. Avexa's lead molecule AVX13616 has been selected for pre-clinical testing. Studies of AVX13616 have shown it possesses good antibacterial activity against various strains of *Clostridium difficile* and against mupirocin-resistant strains of *Staphylococcus aureus*. This compound and others are the result of a long standing collaboration with the University of Wollongong, NSW.

Valevia has extensive experience and understanding of developing antibacterial drugs. The company was established by experienced drug-developers who have previously worked at large pharmaceutical companies with a track record of developing quality antibacterial agents. It is supported by an advisory board composed of international leaders in the field. Moreover, Valevia has established relationships with research institutes to leverage their existing capital and progress their program in world class centres.

Resistance to antibiotics has become a significant clinical issue worldwide and is a phenomenon that has continued to increase over the years, especially in hospitals. Any development of drugs that are active against a range of microorganisms resistant to antibiotics would be a landmark achievement.

Apricitabine (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 thirty 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. Antiviral drugs which inhibit the replication of HIV can dramatically slow down the course of the disease, but often their usefulness is cut short by the development of drug resistance. A further problem for many currently used anti-retroviral drugs is the occurrence of unwanted side effects, which can be intolerable or even life threatening.

ATC has significant potential to be a valuable new treatment for HIV as it addresses these two pivotal issues: drug resistance and safety/tolerability. 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 during clinical trials of ATC even in patients who have been treated with ATC for three years.

In addition, 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. HIV-infected patients must take a variety of different drugs, both to treat their HIV disease but also for the overall management of HIV symptoms (e.g., for the prevention/treatment of opportunistic infections). This may lead to drug-drug interactions 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.

These key properties of ATC, lack of resistance and safety, are exactly those which are required in patients who have developed resistance to the currently used drugs.

During the year, substantial progress has been made towards nearing approval for ATC. The full results of the Phase 2b/3 clinical trial of ATC (AVX-301), which was previously terminated early, were thoroughly analysed, collated and discussed at a review meeting with the US FDA, along with long term data from the completed AVX-201E study. At the same time, a dramatically different, accelerated clinical study was researched, designed and discussed. This single confirmatory study is smaller, faster, simpler, and low risk. With the strength of the AVX-301 study results combined with the accrued data package generated over the last few years, Avexa has been able to agree upon an easier, clear and fast route to approval of ATC for patients with resistance to currently used HIV drugs. Various requirements associated with the completed 201 and 301 studies have also been completed.

Most importantly, the FDA has recognised and given credit for the significant amount of previous ATC clinical studies conducted by Avexa, in particular the latest ATC study AVX-301. As a consequence, the remaining regulatory requirements for an ATC approval are considerably less complicated and less extensive than previously assumed and less than that required for other recently approved drugs.

The feasibility of conducting the new confirmatory study has also been assessed, and sites have been identified a number of countries across the globe where there are patients in need of ATC. The interest from physicians has been high, since, as they have reported to us, they have few if any other drugs to offer these patients, and see no other new drugs being developed.

Over the past year, Avexa has also had discussions with both scientific and medical experts on its Scientific Advisory Board and with Community Groups representing patients' needs. These discussions have confirmed the need for a drug such as ATC, as well as the lack of any competitive products being developed elsewhere. There is concerned agreement amongst the Regulatory Authorities, patients, physicians and scientists upon the lack of new HIV products in development, and the consequences of this in the coming few years. The medical need is expected to grow, and with few, if any competitors, ATC is well placed to fill that growing need. Avexa has also responded to issues and concerns surrounding previous actions in terminating the ATC project and provided reassurance regarding proper management and procedures.

In summary Avexa can now expect:-

- Clearer, simpler, and faster regulatory path forward to approval
- Considerable "risk of failure" mitigation
- Significantly less cost resulting in better economics for ATC
- An immediate Phase III trial with near term approval potential
- ATC to be far more attractive economically to potential partners

Drug discovery and development

HIV Integrase

According to the World Health Organisation, HIV infection leading to AIDS has become the fourth largest cause of death globally.

The replication cycle of HIV contains a number of key enzymes and processes that are essential for virus replication and which are therefore good targets for the discovery of effective antiviral drugs. The three key enzymes for HIV are the Reverse Transcriptase (the target of ATC), protease, and 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 of HIV 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. Indeed, raltegravir's activity seems to be highly dependent on being used with other active drugs, and in particular active NRTIs (such as ATC, see above), which are not always available. Therefore, Avexa's project is aimed at discovering compounds that maintain activity against virus that is resistant to raltegravir and other integrase inhibitors.

Over the last year, Avexa has successfully identified several series of compounds with potent integrase inhibitor activity, including against the resistant enzyme. However, the pharmaceutical properties of these compounds were not ideal, resulting in low levels of drug in the plasma. Work is now concentrating on improving the properties of the compounds to give higher and more sustained levels of drug, with the aim of once daily dosing. Following this optimisation, a pre-clinical candidate may be chosen to proceed into formal pre-clinical studies.

Avexa's earliest series was, during this year, licensed to Shanghai Institute of Organic Chemistry (SIOC) in China. This licensing deal will see SIOC take on all of the development costs for one of Avexa's HIV integrase inhibitor programs. Avexa will receive 50 percent of any net commercialisation revenues. Avexa retains all development and marketing rights for the program outside of China.

Antibacterial project

As mentioned previously, Avexa's antibacterial portfolio was licensed to Valevia in November 2010. Valevia have initiated preclinical studies to further characterise the activity of AVX13616 against *Clostridium difficile*, an increasingly important pathogen responsible for many outbreaks of severe gastrointestinal disease. Potential further opportunities for AVX13616 have also been identified in the areas of other types of bacterial skin infections. The potential for these further indications are being pursued in parallel and may expand the market opportunities for this partnered programme.

Capital and corporate structure

During the financial year ended 30 June 2011 there were no movements in share capital.

Full details of movements in share capital for the year are detailed in Note 19 to the financial statements. There were no changes to the corporate structure of Avexa Limited during the financial year ended 30 June 2011 save that Avexa Limited incorporated a new subsidiary, AVI Capital Pty Ltd. AVI Capital Pty Ltd has 12 shares on issue, all of which are beneficially owned by Avexa Limited

Unissued shares under option

During the year nil (2010: nil) options to acquire ordinary shares were issued to staff, nil (2010: nil) to executive officers and 1,500,000 (2010: nil) to the Interim CEO/ Chief Scientific Officer. Terms and conditions of options issued are provided in the Remuneration Report. Nil (2010: nil) options were exercised during the financial year for total proceeds of $nil (2010: $nil). 200,000 options lapsed during the financial year and 7,545,000 (2010: 1,585,000) options were forfeited upon the departure of employees during the financial year.

At 30 June 2011 there were 5,620,000 options (30 June 2010: 11,865,000) on issue to executives and employees and a further 4,000,000 (30 June 2010: 4,000,000) to Shire Canada Inc. There have been 7,745,000 (2010: 3,910,000) options forfeited, nil (2010: nil) approved to be issued and nil (2010: nil) exercised after the reporting date and up to the date of this report, such that at the date of this report unissued ordinary shares of the Company under option are as shown in the following table.

Number of options on issue at the date of this report	Exercise price when granted	Adjusted Exercise Price (*)	Expiry date
Employee options:			
1,450,000	$0.63	$0.62	30 April 2012
1,180,000	$0.31	$0.30	30 April 2012
200,000	$0.54	$0.53	30 June 2013
200,000	$0.62	$0.30	30 June 2013
1,090,000	$0.13	$0.13	18 June 2014
1,500,000	$0.06	n/a	31 Dec 2012
5,620,000			
Non-employee options:			
4,000,000	$0.704 (#)	$0.632	See below (#)
9,620,000			

* The exercise price of these options has been adjusted following rights issues by the Company in accordance with ASX Listing Rule 6.22.

The exercise price of the 4,000,000 options issued to Shire Canada Inc. of 70.4 cents (adjusted to 63.2 cents following rights issues in accordance with ASX Listing Rule 6.22) is equal to the volume weighted average price of Avexa shares over the period commencing 30 business days before and ending 30 business days after the ASX trading day of 19 March 2007 on which the 21 day results of the Company's apricitabine (ATC) Phase IIb study were announced. The exercise period for these options commenced on 17 January 2008 and expires on the earlier of 17 January 2012 or the termination of the Shire Licence Agreement.

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 (59)	Mr Kirkwood was appointed as Non-Executive Chairman on 18 April 2011 and 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) and as a Non-Executive Director on the Boards of Medical Developments International Ltd. (ASX.MVP) and Vision Group Holdings Ltd. (ASX.VGH. 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 (57)	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 Director of private pharmaceutical company Lupin Australia Pty Ltd and public unlisted company Link Equity Pharmaceuticals Pty Ltd. Mr Hewett has held senior roles with Janssen-Cilag, Faulding Pharmaceuticals and founded specialist pharmaceutical company Max Pharma.

Mr Handojo (Jet) Soedirdja
Independent Non-Executive Director (47)

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Mr Soedirdja joined the Board on 12 July 2010 as a Non-Executive Director of the Company and is a member of the Avexa Audit Committee and the Avexa Remuneration and Nomination Committee. He is an experienced Director in Australia and overseas and brings extensive experience in investment markets. Mr Soedirdja has been a Non-Executive Director of Mosaic Oil (ASX.MOS), an Australian oil exploration company, and PT Dragon Capital Management, an investment group based in Indonesia. He was also Non-Executive Director and Joint Chairman of PT Bumindo Energi International, a contractor company.

He currently serves as a Non-Executive Director of Allied Healthcare Group Limited (ASX.AHZ).

He is currently an investment advisor at Bell Potter Securities and has held advisor roles at RBS Morgans (formerly ABN Amro Morgans) and Credit Suisse First Boston.

Mr Tan
Independent Non-Executive Director (46)

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 company, Adventus Holdings Limited and a partner in a Singapore law firm, Colin Ng and Partners LLP.

Mr J Baini was Chairman and Independent Non-Executive Director, a member of the Audit Committee and Remuneration and Nomination Committee until his resignation on 18 April 2011.

Mr S Crowley was an Independent Non-Executive Director, a member of the Audit Committee and Remuneration and Nomination Committee until his resignation on 5 November 2010.

Mr N Drona was Chairman and Independent Non-Executive Director until 6 July 2010.

Mr D Bottomley was an Independent Non-Executive Director, a member of the Remuneration and Nomination Committee and Chair of the Audit Committee until his resignation on 7 July 2010

Mr U Ratner was an Independent Non-Executive Director and Chairman of the Remuneration and Nomination Committee from 19 May 2010 until 6 July 2010

Company Secretary

Mr Lee Mitchell B.A LLM.

Mr Mitchell was appointed as Company Secretary of Avexa Limited on 1 December 2010. He is a qualified lawyer and has practiced in corporate and commercial law for over 15 years.

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	650,000	-
Mr B Hewett	100,000	-
Mr A Tan	-	-
Mr J Soedirdja	1,325,715	-

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:

Director	Board Meetings		Audit Committee Meetings		Remuneration and Nomination Committee Meetings	
	Attended	Held (i)	Attended	Held (i)	Attended	Held (i)
Mr N Drona	-	-	-	-	-	-
Mr D Bottomley	2	2	-	-	-	-
Mr U Ratner	-	-	-	-	-	-
Mr J Baini	15	15	3	3	2	2
Mr Crowley	11	11	1	1	-	-
Mr I Kirkwood	14	14	4	4	3	3
Mr B Hewett	17	19	4	4	3	3
Mr H Soedirdja	17	17	4	4	3	3
Mr A Tan	6	6	3	3	2	2

(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 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.

Likely developments

Information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Events subsequent to reporting date

On 06 July 2011 Avexa announced that it has engaged PharmaVentures Limited to advise and assist in seeking an out-licensing partner for apricitabine (ATC), its late-stage, novel treatment for HIV infection. The engagement will utilise PharmaVentures' global transactional expertise in the healthcare and investment business sectors.

On 14 July 2011 Avexa announced that it held 96 million ordinary shares in the newly merged Allied Healthcare Group. Allied Healthcare Group is the result of the June 2011 merger between BioMD (previously ASX:BOD) and Allied Medical Ltd. This represents a 16.9% shareholding in the company valued at $7.2 million based on the market closing price on 13 July 2011.

In the period since the beginning of the financial year to the date of this report Avexa realised gains of $0.5 million from short term investments.

Other than the above, 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 an undisclosed premium amount 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 subcommittee 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 nonfinancial nature.
- 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, interest rate and 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 2011 and is set out on page 17.

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	$ 9,500
Other assurance services	$ 26,000
Total Non-audit services	$ 35,500

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 13. There have been no changes to KMP after the reporting date and before the date of this report.

Principles of compensation

The remuneration committee is responsible for making recommendations to the board on the remuneration arrangements for non-executive directors (**NED**s) 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 staff are reviewed annually by the board 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 staff are conducted by the interim CEO who makes recommendations to the Board for approval.

Key Performance Indicators (**KPIs**) are individually tailored by the Board, based on recommendations and input by the interim CEO 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 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 share 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% 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% on personal performance and 50% 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 $81,500 (2010: $20,000) has been accrued at the end of the 2011 financial year by way of an employee benefit provision in respect of performance incentives for the 2011 financial year. $81,500 (2010: $20,000) was paid in the July 2011 payroll in respect of staff performance for the 2011 financial year.

The Interim CEO has the discretion to recommend the offer of options to acquire ordinary shares to any member of staff in recognition of exemplary performance. Such options may vest immediately 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 the option limits imposed by the Corporations Act. The Board considers that the performance linked compensation structure is operating effectively.

At 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)	6 weeks (3months for Interim CEO/CSO)	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, 6 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 long term incentive for performance and loyalty. Any such options are issued under the Employee Share Option Plan (**ESOP**). In order to give the incentive a medium to long term impact, the options issued have an approximate five year life and a vesting profile as shown following.

2011

Issues in 2011	1,500,000 to Interim CEO/CSO (i)
Exercise price:	$0.06
Vesting:	Immediately, but exercise is subject to performance hurdle being met (i)

(i) Options may only be exercised if the Company's volume weighted average share price for any five consecutive days of share trading following the date of issue of the Options, equals or exceeds $0.125 (12 and a half cents).

2010:

No issues of options occurred in 2010.

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 $55,000 and $110,000 for the non-executive directors and Chairman respectively have applied from 1 May 2007.
From 1 July 2008, 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.

From 7 July 2010 director's base fees were decreased to $50,000 and $100,000 for the non-executive directors and the Chairman respectively.

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 3 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 Corporations Act 2001 in the following tables.

No options held by persons in the following compensation tables were exercised during the 2010 and 2011 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 in 2011 and 2010 tables

(i) Performance incentive payments

The bonus/incentive compensation value for Dr Coates was based on the three main personal KPI's, the organization and completion of the Independent Expert Review, the gaining of a date with FDA prior to the AGM, and also because of the outcome from the FDA meeting.

(ii) Loans

A limited recourse loan was provided to each of Dr Chick ($144,865) and Dr Coates ($150,000) for the sole purpose of facilitating their full participation in the rights issue under the 21 March 2007 Prospectus. The loans were interest free, had a five year term and the shares purchased through the loan funding were subject to a holding lock until the loan was extinguished. The loans were repayable either in cash or by transfer of title to the shares acquired through the application of the loan proceeds, at the option of the employee. A compensation value was calculated and attributed to each loan.

Given that the option value attached to the limited recourse loans was considered part of long-term incentive compensation rather than as a short term incentive payment, and also given the holding lock over the shares acquired through the loan until the loan had been repaid in full, the compensation value for the loan was being brought to account in equal instalments over the five year term of each loan.

On termination of employment in May 2010 the respective loans for Dr Chick and Dr Coates were extinguished.

In respect of these loans, amounts of $14,316 and $14,823 had been brought to account in the 2010 remuneration tables for Drs Chick and Coates respectively as a non-cash benefit.

(iii) Motor vehicle

The bonus/incentive compensation value for Dr Chick comprises lease payments for each year of a three year novated finance lease agreement, the Fringe Benefits Tax applicable to the vehicle for the period, plus the associated maintenance and running costs, which combine for an aggregate compensation value for the period of $71,918.

2011:

	Short term:			Post Employment:	Share-based Payments:		
	Base Compensation (salary and fees)	Non-cash Benefits	Bonuses / incentives	Superannuation Contributions	Shares and Options issued	Termination benefits	Total compensation
Directors	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Non-executive							
Mr I Kirkwood (i)	47,705	-	-	11,956	-	-	59,661
Mr B Hewett (ii)	46,199	-	-	8,153	-	-	54,352
Mr H Soedirdja (iii)	49,296	-	-	-	-	-	49,296
Mr A Tan (iv)	29,359	-	-	-	-	-	29,359
Mr J Baini (v)	81,919	-	-	-	-	-	81,919
Mr N Drona (vi)	9,167	-	-	-	-	-	9,167
Mr D Bottomley (vii)	1,108	-	-	-	-	-	1,108
Mr U Ratner (viii)	1,129	-	-	-	-	-	1,129
Mr S Crowley(ix)	16,098	-	-	-	-	-	16,098
Total compensation	**281,980**	**-**	**-**	**20,109**	**-**	**-**	**302,089**
Executives							
Key Management Personnel							
Dr J Coates (x)	182,693	-	50,000 (14.3%)	21,923	94,026 (27.0%)	-	348,642
Ms M Klapakis (xi)	68,772	-	-	6,189	827 (1.1%)	-	75,788
Mr S Kerr (xii)	107,865	-	-	10,000	13,532 (5.4%)	117,308	248,705
Total compensation	**359,330**	**-**	**50,000**	**38,112**	**108,385**	**117,308**	**673,135**

(i) Appointed on 9 August 2010. Appointed Chairman on 18 April 2011.
(ii) Appointed on 6 July 2010.
(iii) Appointed on 12 July 2010.
(iv) Appointed on 1 December 2010.
(v) Appointed on 22 April 2009. Resigned on 19 May 2010. Re-appointed on 7 July 2010. Resigned 18 April 2011.
(vi) Ceased appointment on 6 July 2010.
(vii) Resigned on 7 July 2010.
(viii) Ceased employment on 6 July 2010.
(ix) Appointed on 6 July 2010. Resigned on 5 November 2010.
(x) Ceased employment on 7 May 2010. Re-appointed on 12 July 2010.
(xi) Appointed on 1 December 2010.
(xii) Ceased employment on 30 November 2010.

In addition to the above directors' remuneration, during the financial year consultancy fees of $22,000 were paid to eXec Factor Pty Ltd (a company associated with Mr Baini).

For Key Management Personnel titles refer to the table on Page 37 of this report.

2010:

	Short term:			Post Employment:	Share-based Payments:		
	Base Compensation (salary and fees)	Non-cash Benefits (xvii)	Bonuses / incentives	Superannuation Contributions	Shares and Options issued	Termination benefits	Total compensation
Directors	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Non-executive							
Mr N Drona (vi)	110,000	-	-	-	-	-	110,000
Mr D Bottomley (vii)	60,000	-	-	-	-	-	60,000
Mr U Ratner (viii)	8,280	-	-	-	-	-	8,280
Mr L Gozlan (xiii)	24,847	-	-	2,236	-	-	27,083
Mr J Baini (v)	60,417	-	-	-	-	-	60,417
Executive							
Dr J Chick (xiv)	297,917	14,316	71,918 (xviii) (10.4%)	25,000	-	289,600	698,751
Total compensation	**561,461**	**14,316**	**71,918**	**27,236**	**-**	**289,600**	**964,531**
Executives							
Key Management Personnel							
Dr J Coates (x)	168,383	42,523	-	31,169	124,681 (21.0%)	227,534	594,290
Dr S Cox (xv)	152,199	16,731	-	18,126	98,257 (23.9%)	126,238	411,551
Dr J Deadman (xvi)	145,360	5,368	3,000 (0.9%)	16,082	88,832 (26.4%)	76,978	335,620
Dr D Rhodes (xvi)	111,586	37,574	3,000 (0.8%)	19,787	92,498 (25.6%)	96,609	361,054
Mr S Kerr (xii)	226,000	-	20,000 (7.1%)	24,000	13,532 (5.1%)	-	283,532
Total compensation	**803,528**	**102,196**	**26,000**	**109,164**	**417,800**	**527,359**	**1,986,047**

(v) Appointed on 22 April 2009. Resigned on 19 May 2010. Re-appointed on 7 July 2010. Resigned on 18 April 2011.
(vi) Ceased appointment on 6 July 2010.
(vii) Resigned on 7 July 2010.
(viii) Ceased employment on 6 July 2010
(x) Ceased employment on 7 May 2010. Re-appointed on 12 July 2010.
(xii) Ceased employment on 30 November 2010
(xiii) Resigned on 17 November 2009
(xiv) Resigned on 6 May 2010. Ceased employment on 31 May 2010.
(xv) Ceased employment on 7 May 2010.
(xvi) Ceased employment on 18 June 2010.
(xvii) Non-cash benefits comprises salary-packaged items valued at the grossed up value of the benefit including fringe benefits tax. For the CEO and CSO only, non-cash benefits also comprise the accounting value of the loans provided in 2007
(xviii) The CEO bonus for 2010 comprises the financial value of the motor vehicle finance lease agreement (relating to a 2007 bonus arrangement)

In addition to the above directors' remuneration, during the financial year consultancy fees of $56,867 were paid to Mr Drona and consultancy fees of $105,000 were paid to Ryder Capital (a company associated with Mr Bottomley).

Grants, modifications and exercise of options and rights over equity instruments granted as compensation

There were options granted as compensation during the financial year to the interim CEO/CSO as declared in the Directors' and Executive Officers' compensation tables. During the financial year 200,000 options held by these persons lapsed. 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 other than the terms of Mr S Kerr's (former CFO) vested but unexercised options that would otherwise have lapsed during this current financial year were varied and extended by 12 months. There is no difference between the total fair value of the options immediately before the variation and immediately afterwards and the financial effect is not quantifiable

2011:

Executives and title	Options granted		Number and % vested in year	Financial years In which Grant vests	Value yet To vest in $
Company Executive:	**Number**	**Date**			
Dr J Coates (Interim CEO & Chief Scientific Officer)	1,500,000	3 May 2011	100%	2011	nil
	1,500,000				**nil**

Pursuant to Board resolutions, the following options were offered to the interim CEO during the year ended 30 June 2011.

(i) 1,500,000 options with an exercise price of $0.06 each expiring on 31 December 2012 and exercisable only when the performance condition is met (see below).

(ii) Options are only exercisable if the arithmetic average of the daily VWAP (rounded to the nearest cent) in any 5 consecutive trading days in which trading in Avexa shares occurs following the date of grant of the Options, equal or exceeds $0.125 (12 and one half cents).

2010:

No options were granted during the 2010 financial year.

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 following factors and assumptions have been used in determining the fair value on grant date. Comparative information for the 2010 financial year has not been restated as market conditions were already included in the prior year valuation. A zero dividend yield assumption has been adopted in every valuation.

2011:

There were 1,500,000 issued during the 2011 financial year.

Number and Recipients Of options	Grant date	Expiry date	Fair value Per option	Exercise price	Price of shares on value date	Risk free interest rate	Estimated volatility
1,500,000 Dr J Coates	3 May 2011	31 December 2012	$0.135	$0.06	$0.047	4.92%	80%

2010:

There were no options issued during the 2010 financial year.

Shares issued on exercise of options

During the financial year the Company issued 1,500,000 (2010: nil) ordinary shares upon the exercise of options for total proceeds of $nil (2010: $nil). Since the end of the financial year up to the date of this report the Company has issued nil (2010: nil) shares upon exercise of options for total proceeds of $nil (2010: $nil).

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.

Dated at Melbourne this 30th day of August, 2011.

This report is made with a resolution of the directors.

Mr I Kirkwood
Chairman

KPMG

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 audit for the financial year ended 30 June 2011 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

30th August 2011

AVEXA LIMITED ABN 53 108 150 750

Statement of comprehensive income		**Consolidated**	
For the year ended 30 June 2011	Note	**2011**	2010
		$'000	$'000
Revenue from operating activities	4	**91**	398
Other revenue	4	**379**	303
Contract research and development expenses	5(a)	**(1,091)**	(6,848)
Employee expenses		**(1,566)**	(4,318)
Share-based payment expense	20	**(113)**	(453)
Depreciation expense and loss on disposal of plant and equipment	5(b)	**(223)**	(237)
Impairment of marketing licence expense	5(a)	**-**	(25,762)
Merger proposal expenses		**-**	-
Occupancy expenses		**(1,139)**	(1,794)
Consulting expenses		**(583)**	(293)
Professional services expenses		**(658)**	(379)
Travel and accommodation expenses		**(352)**	(496)
Raw materials and consumables expenses		**(13)**	(547)
Asset management expenses		**(66)**	(247)
Insurance expenses		**(149)**	(195)
Corporate administration expenses		**(239)**	(382)
Intellectual property expenses		**(312)**	(671)
Other expenses	5(c)	**(205)**	(562)
Results from operating activities		**(6,239)**	(42,483)
Finance income		**1,185**	995
Loss before income tax		**(5,054)**	(41,488)
Income tax benefit	7	**652**	-
Loss from operations for the period		**(4,402)**	(41,488)
Loss attributable to owners of the company	20	**(4,402)**	(41,488)
Other comprehensive income (net of tax)			
Net change in fair value of available for sale financial assets		6,275	-
Total comprehensive income/(loss) for the period		**1,873**	(41,488)
Earnings per share			
Basic earnings per share (ordinary shares)	23	**(0.5)**	(5.4)
Diluted earnings per share (ordinary shares)	23	**(0.5)**	(5.4)

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 22 to 44.

AVEXA LIMITED ABN 53 108 150 750

Statement of changes in equity		**Consolidated**			
For the year ended 30 June 2011	Note	**Issued capital**	**Accumulated losses**	**Fair value reserve**	**Total Equity**
		$'000	**$'000**	**$'000**	**$'000**
Opening balance as at 1 July 2010		**182,523**	**(158,154)**	**-**	**24,369**
Comprehensive income/(loss) for the period					
Loss	20	**-**	(4,402)	-	(4,402)
Total other comprehensive income				6,275	6,275
Total comprehensive income for the period		**-**	**(4,402)**	**6,275**	**1,873**
Transactions with owners, recorded directly in equity					
Contributions by owners					
Issue of ordinary shares pursuant to placement		-	-	-	-
Issue of ordinary shares pursuant to share purchase plan		-	-	-	-
Equity settled share-based payment transactions		**-**	113	-	113
Total contributions by owners		-	113	-	113
Total transactions with owners	19	**-**	**113**	**-**	**113**
Closing balance as at 30 June 2011		**182,523**	**(162,443)**	**6,275**	**26,355**

Statement of changes in equity					
For the year ended 30 June 2010	Note	**Issued capital**	**Accumulated losses**	**Fair value reserve**	**Total Equity**
		$'000	**$'000**	**$'000**	**$'000**
Opening balance as at 1 July 2009		**159,902**	**(117,119)**	**-**	**42,783**
Comprehensive loss for the period					
Loss	20	**-**	(41,488)	-	(41,488)
Total comprehensive loss for the period		**-**	**(41,488)**	**-**	**(41,488)**
Transactions with owners, recorded directly in equity					
Contributions by owners					
Issue of ordinary shares pursuant to placement		8,001	-	-	8,001
Issue of ordinary shares pursuant to share purchase plan		15,324	-	-	15,324
Transactions costs relating to issues of ordinary shares		(704)	-	-	(704)
Equity settled share-based payment transactions		**-**	453	-	453
Total contributions by owners		22,621	453	-	23,074
Total transactions with owners	19	**22,621**	**453**	**-**	**23,074**
				-	
Closing balance as at 30 June 2010		**182,523**	**(158,154)**	**-**	**24,369**

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 22 to 44.

AVEXA LIMITED ABN 53 108 150 750

Statement of financial position		Consolidated	
as at 30 June 2011	Note	**2011**	2010
		$'000	$'000
Current assets			
Cash assets	10	**16,387**	24,306
Receivables	11	**936**	341
Investments	12	**1,210**	-
Other	13	**60**	178
Total current assets		**18,593**	24,825
Non-current assets			
Investments	12	**7,776**	-
Intangibles	14	**-**	-
Property, plant and equipment	15	**459**	653
Total non-current assets		**8,235**	653
Total assets		**26,828**	25,478
Current liabilities			
Payables	16	**257**	693
Employee benefits	17	**128**	36
Other	18	**35**	123
Total current liabilities		**420**	852
Non-current liabilities			
Employee benefits	17	**18**	13
Other	18	**35**	244
Total non-current liabilities		**53**	257
Total liabilities		**473**	1,109
Net assets		**26,355**	24,369
Equity			
Issued capital	19	**182,523**	182,523
Fair value reserve	20	**6,275**	-
Accumulated losses	20	**(162,443)**	(158,154)
Total equity		**26,355**	24,369

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 22 to 44.

Statement of cash flows		**Consolidated**	
For the year ended 30 June 2011	Note	**2011**	2010
		$'000	$'000
Cash flows from operating activities			
Cash receipts in the course of operations		**388**	619
Cash payments in the course of operations		**(6,801)**	(18,350)
Interest received		**1,261**	885
Net cash used in operating activities	22	**(5,152)**	(16,846)
Cash flows from investing activities			
Payments for property, plant and equipment		**(29)**	(158)
Payments for equity investments		**(2,738)**	-
Payments for merger proposal costs (net of break fees received)		**-**	-
Net cash used in investing activities		**(2,767)**	(158)
Cash flows from financing activities			
Proceeds from issue of share capital		**-**	23,325
Costs of raising share capital		**-**	(704)
Net cash provided by financing activities		**-**	22,621
Net (decrease) / increase in cash held		**(7,919)**	5,617
Cash at the beginning of the financial year		**24,306**	18,827
Effect of exchange rate fluctuations on cash held		**-**	(138)
Cash at the end of the financial year	10	**16,387**	24,306

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 22 to 44.

AVEXA LIMITED ABN 53 108 150 750

INDEX TO NOTES TO THE ACCOUNTS

Note

1 Reporting entity

Avexa Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office is 576 Swan Street, Richmond, VIC 3121. The consolidated financial statements of the Company as at 30 June 2011 comprise the Company and its three subsidiary entities (together referred to as the "Group" and individually as "Group entities"). The Group primarily is involved in research and development, for commercialisation of anti-infective pharmaceutical programs and 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 30 August 2011. 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.

The consolidated financial statements have been prepared on a going concern basis, which assumes the settlement of liabilities and realisation of assets in the normal course of business. At 30 June 2011, the Company had $16.4 million of funds available to undertake all forecast activities for the 2012 financial year and beyond in accordance with the Company's strategy. This strategy includes providing sufficient working capital for the Company beyond the 2012 financial year until such time as self-sustaining revenue streams are realised.

Should the directors of the Company be of the view in the future that the development of ATC should continue, additional funding will be required to conduct further Phase III trials and secure all the requisite marketing and regulatory approvals. In this case the Company would seek a partner for the project and pursue other avenues such as capital raising, merger and acquisition and out-licensing available to the Company to secure the funding necessary for ATC to reach the market.

(c) Use of estimates and judgements

The preparation of consolidated financial statements conformity with Australian Accounting Standards 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 no 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. 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.

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 Group has not elected to early adopt any accounting standards (refer note 3(s).

(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. 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.

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 expense is discussed in Note 3(c).

(c) Finance income and expenses

Finance income comprises interest income on funds invested, foreign currency gains, and any gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise any interest expense, foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

(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.

(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.

(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. 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.

(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.

Periods of service with each employee's immediate former employer have been recognised by the Company as at the date of commencement of employment for those employees starting with the Company on 1 July 2004.

(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 operates within a single business segment comprising anti-infective research and development. 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.

(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) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2011 but have not been adopted in preparing this financial report:

- AASB 9 & AASB 2009-11 – Financial Instruments (December 2009): Addresses the mixed measurement model and two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The Company has not yet determined the potential effect, if any, of the revised standard on its financial disclosures.

4 Revenue

	Consolidated	
	2011	2010
	$'000	$'000
Grant income	**91**	398
Total revenue from operating activities	**91**	398
Lease income	**379**	303
Total other revenue	**379**	303

5 Profit before related income tax expense

	Consolidated 2011 $'000	Consolidated 2010 $'000
a) Individually material items included in profit before related income tax expense:		
Contract research and development expenditure	**1,091**	6,848
Direct research and development expenditure	**1,396**	4,529
Research and Development	**2,487**	11,377
Impairment of Marketing Licence	**-**	25,762
b) Profit before related income tax expense has been arrived at after charging the following items:		
Depreciation of plant and equipment	**178**	235
Amounts transferred to provisions for employee entitlements (Note 27)	**97**	(407)
Superannuation payments to defined contribution plans	**110**	302
c) Other expenses		
Advertising and promotion	**99**	233
Workplace administration	**41**	92
Finance expenses	**5**	157
Other expenses	**60**	80
Total other expenses	**205**	562

6 Auditor's remuneration

Audit services:	**$**	$
Auditors of the Company	**60,000**	79,261
Total audit services	**60,000**	79,261
Other services:		
Accounting advice	**-**	-
Tax compliance and advisory services	**9,500**	9,500
Other assurance services	**26,000**	6,500
Other advisory services	**-**	-
Total other services	**35,500**	16,000

7 Income Tax

	Consolidated 2011	2010
	$'000	$'000
Current tax expense (benefit) – current year	**(652)**	-
Deferred tax expense – continuing operations	**-**	-
Total income tax expense (benefit) in income statement attributable to continuing operations	**(652)**	-
Numerical reconciliation between tax expense and pre-tax net loss:		
Loss before tax – continuing operations	**(5,054)**	(41,488)
Income tax using the domestic corporation tax rate of 30% (2010: 30%)	**(1,516)**	(12,446)
Change in unrecognised temporary differences	**51**	(174)
Increase in income tax expense due to:		
Non-deductible expenses	**55**	7,873
Deferred tax assets not brought to account	**1,961**	5,714
Decrease in income tax expense due to:		
Items deductible for tax purposes	**(421)**	(431)
Research and development allowance	**(130)**	(536)
Income tax expense on pre-tax net loss	**-**	-
Unused tax losses for which no deferred tax asset has been recognised	**139,012**	133,620
Potential tax benefit at 30%	**41,704**	40,086

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 against which the Company can utilise the benefits there from. There was no deferred tax recognised directly in equity.

8 Dividend franking account

The Company has no franking credits at reporting date.

9 Segment Reporting

The Group comprises a single business segment (anti-infective research and development). Although the Group'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 Group has established overseas subsidiaries in the US and UK and incorporated a new subsidiary during the financial year, the operations of these entities were immaterial. No segment reporting has therefore been prepared.

10 Cash assets

	2011	2010
Cash at bank and on hand	**235**	374
Bank short term deposits	**16,152**	23,932
Total cash assets	**16,387**	24,306

Financing arrangements

At 30 June 2011 the Company had a credit card facility of $150,000 of which Nil was used as at 30 June 2011 (2010: $nil). Interest on cash at bank is credited at prevailing market rates. The weighted average interest rate at reporting date was 5.9% (2010: 5.4%).

11 Receivables

Current

	2011	2010
Income tax benefit	**284**	341
Other Income	**652**	-
Total Receivables	**936**	341

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Consolidated

12 Investments

	2011	2010
	$'000	$'000
Current		
Financial assets classified as held for trading	**1,210**	-
Non- Current		
Financial assets classified as available for sale	**7,776**	-

Non-Current financial assets classified as available for sale represents the fair value of the investment in Allied Healthcare Group as at 30 June 2011.

13 Other assets

Current		
Prepayments	**60**	178

14 Intangible assets

North American marketing licence for apricitabine (ATC) – at cost	**25,762**	25,762
Less: Provision for impairment	**(25,762)**	(25,762)
	-	-
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 impaired 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.

15 Property, plant and equipment

Plant and equipment (at cost)	**1,368**	1,447
Less: Accumulated depreciation	**(909)**	(794)
Total property, plant and equipment	**459**	653
Reconciliation - Plant and equipment		
Carrying amount at the beginning of the financial year	**653**	732
Additions	**29**	158
Disposals	**(45)**	(2)
Depreciation	**(178)**	(235)
Carrying amount at the end of the financial year	**459**	653

16 Payables

Trade creditors and accruals	**257**	693

The Group's exposure to currency and liquidity risk related to trade and accruals is disclosed in Note 24.

17 Employee benefits provisions

	Consolidated 2011	2010
	$'000	$'000
Current		
Employee benefits (Note 28)	**128**	36
Non- Current		
Employee benefits (Note 28)	**18**	13

18 Other liabilities

Current		
Onerous contracts provision	**35**	123
Non-Current		
Onerous contracts provision	**35**	244

The Company is a party to a non-cancellable lease for office and laboratory space. Due to changes in its activities the Company ceased to use part of these premises by 30 June 2010. The lease expires in June 2013. The unused facilities have been sublet or are available for sublease for the remaining lease term, but changes in market conditions have meant that the rental income will be lower than the rental expense. The obligation for future rental payments, net of expected rental income, has been provided for.

19 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 1,500,000 (2010: nil) options were issued to employees under the Avexa Employee Share Option Plan, 7,745,000 (2010: 3,390,000) options held by employees lapsed or were forfeited and nil (2010: nil) were exercised. Movements in options for the current and prior year are provided in the following tables.

2011 Options	**No of options at beginning of year**	**Options granted**	**Options lapsed / forfeited**	**Options exercised**	**No of options at end of year**
Total employee options (Note 28)	11,865,000	1,500,000	(7,745,000)	-	5,620,000
Shire options (Note 23)	4,000,000	-	-	-	4,000,000
Total options	**15,865,000**	**1,500,000**	**(7,745,000)**	**-**	**9,620,000**

Options to acquire ordinary shares (continued) 2010 Options	**No of options at beginning of year**	**Options granted**	**Options lapsed / forfeited**	**Options exercised**	**No of options at end of year**
Total employee options (Note 28)	15,255,000	-	(3,390,000)	-	11,865,000
Shire options (Note 23)	4,000,000	-	-	-	4,000,000
Total options	**19,255,000**	**-**	**(3,390,000)**	**-**	**15,865,000**

19 Issued capital (continued)

Issued and paid up capital	**2011**		2010	
	$'000	**Number**	$'000	Number
847,688,779 (2010: 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**	159,902	681,080,539
Issue of shares pursuant to Share Purchase Plan	-	-	15,324	109,458,240
Issue of shares pursuant to placement	-	-	8,001	57,150,000
Transaction costs relating to Rights Issue and placements	-	-	(704)	-
Issued capital at the end of the financial year	**182,523**	**847,688,779**	**182,523**	**847,688,779**

20 Accumulated losses

	Consolidated	
	2011	2010
	$'000	$'000
Accumulated losses at the beginning of the financial year	**(158,154)**	(117,119)
Share-based payment expense	**113**	453
Net loss attributable to members of the Company	**(4,402)**	(41,488)
Accumulated losses at the end of the financial year	**(162,443)**	(158,154)

21 Commitments

(a) Non-cancellable operating lease expense commitments

Future operating lease commitments not provided for in the financial statements and payable:		
- Within one year	**882**	763
- One year or later and no later than five years	**913**	1,621
- Greater than five years	**-**	-
	1,795	2,384

For the 2011 financial year the commitments shown are net of the onerous contract provision as disclosed in Note 18.
The principal operating lease commitment other than immaterial office equipment leases is the Company's premises lease agreement which expires on 27 June 2013 and for the 2012 financial year represents a commitment of $821,000.

b) Cancellable research and development commitments

Future research and development commitments not provided for in the financial statements, excluded from a) above and payable:		
- Within one year	**387**	61
- One year or later and no later than five years	**-**	-
	387	61

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.

22 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	
	2011	2010
	$'000	$'000
Cash at bank and on hand	**235**	374
Bank short term deposits	**16,152**	23,932
Cash assets (Note 10)	**16,387**	24,306

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

	2011	2010
Loss after income tax	**(4,402)**	(41,488)
Add non-cash & non-operating items:		
- Depreciation	**223**	237
- Share-based payment expense	**113**	453
- Merger proposal costs (net of break fees)	**-**	-
- Impairment of marketing licence	**-**	25,762
- Foreign exchange losses	**-**	138
- Investment loss on revaluation	**28**	-
Change in working capital and provisions		
- (Increase) / decrease in Receivables	**(595)**	(63)
- (Increase) / decrease in Other assets	**117**	-
- Increase / (decrease) in Employee benefits	**97**	(407)
- Increase / (decrease) in Deferred income	**-**	(82)
- Increase / (decrease) in Payables	**(434)**	(1,763)
- Increase / (decrease) in Other liabilities	**(299)**	367
Net cash used in operating activities	**(5,152)**	(16,846)

Non-cash financing and investing activities

There have been no non-cash financing and investing transactions during the 2011 financial year which have had a material effect on assets and liabilities of the Group.

There were no non-cash financing and investing transactions during the 2010 financial year which had a material effect on assets and liabilities of the Group.

23 Earnings per share

	Consolidated 2011	2010
	$'000	$'000
a) Earnings reconciliation		
Net loss:		
Basic earnings	**(4,402)**	(41,488)
Diluted earnings	**(4,402)**	(41,488)
b) Weighted average number of shares		
Number for basic earnings per share:	**Number**	Number
Ordinary shares	**847,688,779**	768,674,455
Number for diluted earnings per share:		
Ordinary shares	**847,688,779**	768,674,455
Effect of share options on issue #	**9,177,088**	18,880,328
Weighted average number of ordinary shares (diluted)	**856,865,867**	787,554,783

\# The exercise price of the 4,000,000 options issued to Shire Canada Inc. of 70.4 cents (adjusted following rights issues to 63.2 cents in accordance with ASX Listing Rule 6.22) is equal to the volume weighted average price of Avexa shares over the period commencing 30 business days before and ending 30 business days after the ASX trading day of 19 March 2007 on which the 21 day results of the Company's Phase IIb study in respect of the compound apricitabine (ATC) were announced. The exercise period for these options commenced on 17 January 2008 and expires on the earlier of 17 January 2012 or the termination of the Shire Licence Agreement.

24 Financial instruments disclosure and financial risk management

The Group has exposure to market, credit and liquidity risks from the use of the 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 $1.75M of the Group's cash resources are permitted to be invested in securities or investments other than bank and term deposits and in respect of all such investments the holding is to be reviewed by the audit committee if the market price falls by more than 10% below the initial acquisition cost.

24 Financial instruments disclosure and financial risk management (continued)

(a) Market risk (continued)

(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 (2010: nil).

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

	2011				2010			
	GBP	USD	Euros	CNY (China)	GBP	USD	Euros	CNY (China)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Bank accounts	24	56	-	-	28	58	-	-
Receivables	-	-	-	-	-	-	-	-
Payables	(6)	(42)	-	-	(26)	(40)	-	-
Gross balance sheet exposure	18	14	-	-	2	18	-	-

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 2011 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. The analysis is performed on the same basis for 2010. There is no impact on equity.

	2011 Profit and loss		2010 Profit and loss	
Exposure	Strengthening $'000	Weakening $'000	Strengthening $'000	Weakening $'000
Gross balance sheet exposure	(3)	4	(2)	2

The following significant exchange rates applied during the financial year:

	Average rate		Reporting date spot rate	
Currency	2011	2010	2011	2010
GBP	**0.62**	0.56	**0.67**	0.57
USD	**0.99**	0.88	**1.07**	0.85
Euro	**0.72**	0.64	**0.74**	0.70
CNY (China)	**6.54**	6.02	**6.94**	5.79

(ii) Interest rate risk

The effective weighted average interest rate used to discount the Long Service Leave provision is 6.0% (2010: 6.0%). 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 Number	Effective interest rate	Floating interest rate	3 months or less	Non-interest bearing	Total
		%	$'000	$'000	$'000	$'000
Financial assets:						
Cash assets – at 30 June 2011	10	**5.9%**	**206**	**16,100**	**81**	**16,387**
Cash assets – at 30 June 2010	10	**5.4%**	**705**	**23,514**	**87**	**24,306**

An increase or decrease of 0.50% in interest rates applied for 12 months to the cash balances at reporting date would have increased or decreased profit or loss by $81,931 (2010: $121,526), assuming that all other variables, including foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

24 Financial instruments disclosure and financial risk management (continued)

(ii) Interest rate risk (Continued)

	2011 Profit and loss		2010 Profit and loss	
	Strengthening	**Weakening**	**Strengthening**	**Weakening**
	$'000	**$'000**	**$'000**	**$'000**
Cash at bank – variable interest rate:				
AUD	82	(82)	122	(122)

(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 receivables due from tenants and from interest and capital on investments with financial institutions.

(i) Investments (including cash)

The Group limits its exposure to credit risk by only investing in liquid securities or bank and term deposits, at call accounts and liquid marketable securities. 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

(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. Generally the nature of the core business is such that the Group tends to deal with a small number of counterparties of a multinational, high profile and high credit rating status. Wherever possible, the Group will seek appropriate security for any long term credit risk. The Group's exposure to credit risk from receivables is shown below, where all receivables are domestic by geographic location and are tenancy or R&D Rebate related by nature. No amounts are past due and/or impaired at balance date.

	Note Number	3 months or less	Greater than 3 months	Total
		$'000	**$'000**	**$'000**
Financial assets:				
Receivables – at 30 June 2011	11	936	-	**936**
Receivables – at 30 June 2010	11	341	-	**341**

(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, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has no lines of credit other than a credit card facility for $150,000, and 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 Number	3 months or less	Greater than 3 months	Total
		$'000	**$'000**	**$'000**
Financial liabilities:				
Creditors and other accruals – at 30 June 2011	16	257	**-**	**257**
Creditors and other accruals – at 30 June 2010	16	693	**-**	**693**

24 Financial instruments disclosure and financial risk management (continued)

(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; and

(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. There were no changes in this approach during the financial year and the Group is not subject to externally imposed capital requirements other than through the operation of the ASX Listing Rules and Corporations Act 2001. There were no changes in the Group's approach to capital management during the year.

25 Related parties

Disclosures of compensation policies, service contracts and details of compensation are included in the Remuneration Report on pages 9 to 16. The following were Key Management Personnel of the Company at any time during the reporting period and unless otherwise indicated, were directors or executives for the entire period.

Non-executive directors

Mr I Kirkwood (Appointed Chairman 18 April 2011)
Mr B Hewett (Appointed 6 July 2010)
Mr H Soedirdja (Appointed 12 July 2010)
Mr A Tan (Appointed 1 December 2010)
Mr N Drona (Ceased employment on 6 July 2010)
Mr D Bottomley (Resigned on 7 July 2010)
Mr U Ratner (Resigned on 6 July 2010)
Mr J Baini (Resigned 18 April 2011)
Mr S Crowley (Resigned 5 November 2010)

Executives

Dr J Coates (Interim CEO & Chief Scientific Officer) (Ceased employment as Chief Scientific Officer 7 May 2010. Appointed Interim CEO & re-appointed Chief Scientific Officer 12 Jul 2010)
Mr S Kerr (CFO & Company Secretary). (Ceased employment 30 November 2010)
Ms M Klapakis (Financial Controller) (Appointed 1 December 2010)

Directors and Key Management Personnel compensation

The Directors and Key Management Personnel compensation included in "personnel expenses" are as follows:

Nature of compensation	**2011**	2010
	$'000	$'000
Short-term employee benefits	**641**	1,365
At-risk performance benefits	**70**	78
Other short term benefits	**-**	117
Post-employment benefits	**58**	136
Termination benefits	**117**	817
Share-based payment	**109**	418
Total compensation	**995**	2,931

Options and rights over equity instruments granted as compensation.

All options refer to options over ordinary shares of Avexa Limited, which are exercisable on a one-for-one basis under the Avexa Employee Share Option Plan (ESOP) or under a contractual arrangement for the 4 million options issued to Shire Canada Inc. The fair value of the options is calculated at the date of grant using a binomial model and allocated to each reporting period in accordance with the vesting profile of the options. The value 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 of options issued during the financial year and previous financial year are detailed in the following tables.

25 Related parties (continued)

Options and rights over equity instruments granted as compensation (continued)

2011:

Number and recipients of options	Grant date	Expiry date	Fair value per option	Exercise price	Price of shares on value date	Risk free interest rate	Estimated volatility	Number vested during year
1,500,000 to Interim CEO/CSO	3 May 2011	31 December 2012	$0.0135	$0.06	$0.047	4092%	80%	All

All options are vested but are exercisable only if the arithmetic average of the daily VWAP (rounded to the nearest cent) in any 5 consecutive days in which trading in Avexa shares occurs following the date of grant of the Options, equals or exceeds $0.125 (12 and a half cents).

2010:

No options were granted during the 2010 financial year.

Exercise of options granted as compensation
There were no shares issued during the reporting period on the exercise of options previously granted as compensation. There were no options on issue to non-executive directors at any time during the reporting period.

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 and no vested options were unexercisable.

2011:

	Number of options held at 1 July 2010	Number of options issued during year	Number of options lapsed during year	Number of options held at 30 June 2011	Number of options vested at 1 July 2010	Number of options vested during the year	Number of vested options lapsed during year	Number of options vested at 30 June 2011
Executive directors								
Dr J Chick (i) (to 6 May 2010)	300,000	-	(300,000)	-	300,000	-	(300,000)	-
Executives								
Dr J Coates (i) (ii)	2,850,000	1,500,000	(200,000)	4,150,000	1,695,000	1,995,000	(200,000)	3,490,000
Ms M Klapakis	225,000	-	-	225,000	207,500	7,500	-	215,000
Dr S Cox (i) (to 7 May 2010)	2,335,000	-	(2,335,000)	-	1,165,000	-	(1,165,000)	-
Dr J Deadman (i) (to 18 June 2010)	2,365,000	-	(2,365,000)	-	1,102,000	-	(1,102,000)	-
Dr D Rhodes (i) (to 18 June 2010)	2,415,000	-	(2,415,000)	-	1,149,000	-	(1,149,000)	-
Mr S Kerr (iii)	900,000	-	-	900,000	270,000	270,000	-	540,000
Total Executives	**11,090,000**	**1,500,000**	**(7,315,000)**	**5,275,000**	**5,588,500**	**2,272,500**	**(3,616,000)**	**4,245,000**

(i) These executives left the company in May 2010 and June 2010. Options held by these executives expired during the 2010/2011 year.

(ii) Dr Coates was re-employed on 12 July 2010 on a full time basis. His option terms remain as per those at issue date.

(iii) Mr Kerr (former CFO) left the company on 30 November 2010. The terms of Mr Kerr's vested but unexercised options that would otherwise have lapsed during this current financial year were varied and extended by 12 months. There is no difference between the total fair value of the options immediately before the variation and immediately afterwards and the financial effect is not quantifiable.

25 Related parties (continued)

Options and rights over equity instruments granted as compensation (continued)

2010:

	Number of options held at 1 July 2009	Number of options issued during year	Number of options Forfeited / lapsed during year	Number of options held at 30 June 2010	Number of options vested at 1 July 2009	Number of options vested during the year	Number of vested options lapsed during year	Number of options vested at 30 June 2010
Executive directors								
Dr J Chick (i) (to 6 May 2010)	1,400,000	-	(1,100,000)	300,000	1,400,000	-	(1,100,000)	300,000
Executives								
Dr J Coates (i) (ii) (to 7 May 2010)	3,050,000	-	(200,000)	2,850,000	1,100,000	795,000	(200,000)	1,695,000
Dr S Cox (i) (to 7 May 2010)	2,505,000	-	(170,000)	2,335,000	675,000	660,000	(170,000)	1,165,000
Dr J Deadman (i) (to 18 June 2010)	2,485,000	-	(120,000)	2,365,000	574,000	648,000	(120,000)	1,102,000
Dr D Rhodes (i) (to 18 June 2010)	2,485,000	-	(70,000)	2,415,000	553,000	666,000	(70,000)	1,149,000
Mr S Kerr	900,000	-	-	900,000	-	270,000	-	270,000
Total Executives	**11,425,000**	**-**	**(560,000)**	**10,865,000**	**2,902,000**	**3,039,000**	**(560,000)**	**5,381,000**

(i) These executives left the company in May 2010 and June 2010. Options held by these executives expired during the 2010/2011 year.

(ii) Dr Coates was re-employed on 12 July 2010 on a full time basis. His option terms remain as per those at issue date.

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.

2011 Directors:

	Holding of Ordinary Shares at 1 July 2010 (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 2011 (or date of resignation)
Directors	**Number**	**Number**	**Number**	**Number**
Mr I Kirkwood	-	-	650,000	650,000
Mr B Hewett	20,000	-	80,000	100,000
Mr J Soedirdja	325,715	-	1,000,000	1,325,715
Mr A Tan	-	-	-	-
Mr Baini (i)	-	-	200,000	200,000
Mr S Crowley (ii)	-	-	82,479	82,479
Mr D Bottomley (iii)	-	-	-	-
Mr U Ratner (iv)	-	-	-	
Total directors	**345,715**	**-**	**2,012,479**	**2,358,194**

(i) Resigned 18 April 2011

(ii) Resigned 5 November 2010

(iii) Resigned 7 July 2010

(iv) Ceased 6 July 2010

25 Related parties (continued)

Equity holdings and transactions (continued)

2010 Directors:

	Holding of Ordinary Shares at 1 July 2009 (or date of appointment)	Shares sold on market during the financial year	Shares acquired via Rights Issue during the financial year	Holding of Ordinary Shares at 30 June 2010 (or date of resignation)
Directors	**Number**	**Number**	**Number**	**Number**
Dr J Chick (i)	1,591,986	-	85,715	1,677,701
Mr N Drona	-	-	-	-
Mr D Bottomley	-	-	-	-
Mr J Baini (ii)	-	-	-	-
Mr L Gozlan (iii)	-	-	-	-
Mr U Ratner (iv)	-	-	-	-
Total directors	**1,591,986**	**-**	**85,715**	**1,677,701**

(i) Resigned 6 May 2010, ceased employment 31 May 2010
(ii) Resigned 19 May 2010
(iii) Resigned 17 November 2009
(iv) Appointed 19 May 2010

2011 Executives:

	Holding of Ordinary Shares at 1 July 2010	Shares sold on market during the financial year	Shares acquired via Rights Issue during the financial year	Holding of Ordinary Shares at 30 June 2011
Executives	**Number**	**Number**	**Number**	**Number**
Dr J Coates	1,032,519	-	-	1,032,519
Ms M Klapakis	69,029	-	-	69,029
Mr S Kerr	-	-	-	-
Total executives	**1,101,548**	**-**	**-**	**1,101,548**

2010 Executives:

	Holding of Ordinary Shares at 1 July 2009	Shares sold on market during the financial year	Shares acquired via Rights Issue during the financial year	Holding of Ordinary Shares at 30 June 2010
Executives	**Number**	**Number**	**Number**	**Number**
Dr J Coates (to 7 May 2010)	975,376	-	57,143	1,032,519
Dr S Cox (to 7 May 2010)	544,236	-	85,715	629,951
Dr J Deadman (to 18 June 2010)	175,259	-	17,143	192,402
Dr D Rhodes (to 18 June 2010)	51,132	-	-	51,132
Mr S Kerr	-	-	-	-
Total executives	**1,746,003**	**-**	**160,001**	**1,906,004**

Post reporting date movements

There were no post balance date movements from balance date to the date of this report.

There were no post balance date movements of options held from balance date to the date of this report.

There were no post balance date movements of shares held by Key Management Personnel.

25 Related parties (continued)

Loans and other transactions with Key Management Personnel

There were no loans made to directors or executives or other loan movements during the 2011 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 2011 or 2010 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 consultancy fees of $22,000 paid to eXec Factor Pty Ltd (a company associated with Mr Baini), the value of transactions during the year with entities related to directors included in the financial statements was nil.

26 Non-Key Management Personnel related parties

There were no material transactions with non-director related parties during either the 2011 or 2010 financial years.

27 Contingent liabilities

The Group is not aware of any contingent liabilities or contingent assets capable of having a material impact on the Group.

28 Employee benefits

Aggregate liability for employee benefits, including on-costs:

	Consolidated	
	2011	2010
Current – Employee benefits provision:	**$'000**	$'000
Annual leave and long service leave entitlements	**46**	16
Performance incentive entitlements	**82**	20
Non-current – Employee benefits provision:		
Long service leave entitlement	**18**	13
Total employee benefits	**146**	49

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	Long service leave	Performance Incentive	Total
	$'000	$'000	$'000	$'000
Balance at the beginning of the year	16	13	20	49
Payments made	(47)	-	(2)	(49)
Charges raised	77	5	64	146
Balance at the end of the year	**46**	**18**	**82**	**146**

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

Assumed rate of annual increase in salary and wages	**5.0%**	5.0%
Average Discount rate	**6.0%**	6.0%
Settlement term (years)	**7**	7
Number of employees at year end (excluding non-executive directors)	**8**	8

28 Employee benefits (continued)

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 2011 issued 1,500,000 (2010: nil) options over unissued shares under the rules of the ESOP. 7,745,000 (2010: 3,390,000) of these options were forfeited or lapsed during the financial year and nil (2010: nil) options issued in a prior year were exercised during the financial year for total proceeds of $nil (2010: $nil), at a weighted average exercise price of $nil (2010: $nil). The ESOP rules include the following terms and conditions:

- the Board has absolute discretion in terms of eligibility subject to the 5% limit detailed above 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.

2011:

Grant Date	Expiry Date	Exercise Price: original / *current* #	No of options at beginning of year	Options Granted	Options forfeited / lapsed	No of options at end of year
1 July 2006	30 June 2011	$0.30 / *$0.2279*	635,000	-	(635,000)	-
1 July 2006	30 June 2011	$0.30 / *$0.2279*	100,000	-	(100,000)	-
1 Nov 2006	30 June 2011	$0.30 / *$0.2279*	300,000	-	(300,000)	-
25 May 2007	30 April 2012	$0.63 / *$0.62*	2,700,000	-	(1,250,000)	1,450,000
1 July 2007	30 June 2012	$0.63 / *$0.62*	80,000	-	(80,000)	-
10 Sept 2008	30 June 2013	$0.31 / *$0.30*	4,550,000	-	(3,370,000)	1,180,000
10 Sept 2008	30 June 2013	$0.54 / *$0.53*	800,000	-	(600,000)	200,000
10 Sept 2008	30 June 2013	$0.62 / *$0.61*	800,000	-	(600,000)	200,000
18 June 2009	##18 June 2014	$0.13 / *$0.13*	1,900,000	-	(810,000)	1,090,000
3 May 2011	31 Dec 2012	*$0.06 / $0.06*	-	1,500,000	-	1,500,000
Total employee options on issue			**11,865,000**	**1,500,000**	**(7,745,000)**	**5,620,000**

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.

The portion of Mr S Kerr's' options that was due to expire in this current financial year was extended by 12 months. There is no difference between the total fair value of the options immediately before the variation and immediately afterwards and the financial effect is not quantifiable.

A summary of key terms and conditions of the options granted during the financial year is provided below:

The Options expire on 31 December 2012. The Options are fully vested and have an exercise price of $0.06 but can only be exercised if at any time the Company's volume weighted average share price for any five consecutive days of share trading following the date of grant of the Options, equals or exceeds $0.125 (12 and a half cents).

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

28 Employee benefits (continued)

Equity based plan: Avexa Employee Share Option Plan (continued)

2010:

Grant Date	**Expiry Date**	**Exercise Price: original / *current #***	**No of options at beginning of year**	**Options Granted**	**Options forfeited / lapsed**	**No of options at end of year**
26 Sep 2005	30 June 2010	$0.19 / *$0.1036*	480,000	-	(480,000)	-
26 Sep 2005	30 June 2010	$0.19 / *$0.1036*	125,000	-	(125,000)	-
5 Oct 2005	30 June 2010	$0.40 / *$0.3136*	600,000	-	(600,000)	-
5 Oct 2005	30 June 2010	$0.19 / *$0.1036*	500,000	-	(500,000)	-
1 July 2006	30 June 2010	$0.40 / *$0.3279*	100,000	-	(100,000)	-
1 July 2006	30 June 2011	$0.40 / *$0.3279*	50,000	-	(50,000)	-
1 July 2006	30 June 2011	$0.30 / *$0.2279*	680,000	-	(45,000)	635,000
1 July 2006	30 June 2011	$0.30 / *$0.2279*	225,000	-	(125,000)	100,000
1 Nov 2006	30 June 2011	$0.30 / *$0.2279*	300,000	-	-	300,000
1 Nov 2006	30 June 2011	$0.40 / *$0.3279*	50,000	-	(50,000)	-
25 May 2007	30 April 2012	$0.63 / *$0.62*	3,425,000	-	(725,000)	2,700,000
1 July 2007	30 June 2012	$0.63 / *$0.62*	150,000	-	(70,000)	80,000
10 Sept 2008	30 June 2013	$0.31 / *$0.30*	4,780,000	-	(230,000)	4,550,000
10 Sept 2008	30 June 2013	$0.54 / *$0.53*	800,000	-	-	800,000
10 Sept 2008	30 June 2013	$0.62 / *$0.61*	800,000	-	-	800,000
18 June 2009	18 June 2014	$0.13 / *$0.13*	2,190,000	-	(290,000)	1,900,000
Total employee options on issue			**15,255,000**	**-**	**3,390,000**	**11,865,000**

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

There were no options granted during the 2010 financial year.

29 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.

30 Dividends

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

31 Group entities

Significant subsidiaries

For the year ending 30 June 2011	**Country of Incorporation**	**Ownership interest**	
		2011	**2010**
AVI Capital Pty Ltd	Australia	100	-
Avexa Inc	USA	100	100
Avexa Ltd	UK	100	100

32 Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2011 the parent entity of the Group was Avexa Limited.

	2011	**2010**
	$'000	$'000
Results of parent entity		
Profit (Loss) for the period	**(4,303)**	(41,465)
Other comprehensive income	**-**	-
Total comprehensive income for the period	**(4,303)**	(41,465)
Financial position of parent entity at year end		
Current assets	19,814	26,011
Total assets	28,049	26,600
Current liabilities	455	1,096
Total liabilities	473	1,109
Total equity of the parent entity:		
Share capital	182,523	182,523
Revaluation reserve	6,275	-
Reserve for own shares		
Retained earnings	(161,222)	(157,032)
Total equity	**27,576**	25,491

AVEXA LIMITED ABN 53 108 150 750

1 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 9 to 44, 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 2011 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.

2 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 2011.

Dated at Melbourne this 30th day of August, 2011.

This report is made with a resolution of the directors.

Mr I Kirkwood
Chairman

KPMG

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 statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 32 and the directors' declaration.

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 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 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.

KPMG

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 2011 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).

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 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG
KPMG

Paul J McDonald
Partner

Melbourne

30th August 2011