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ASX Announcement

Avexa to invest US$4 million in North American Coal Mine to fund drug development

Melbourne, Australia, 5 November, 2012: Australian biotechnology company Avexa Limited [ASX:AVX] today announced it will invest US$4 million (A$3.88 million) to purchase a 25.5% equity share in Coal Holdings USA LLC with the aim of generating cash flow to fund its key drug candidates. Approval for the investment will be put to Avexa shareholders at its upcoming AGM which will be held on Friday 14 December 2012.

Coal Holdings USA LLC (Coal Holdings) holds a mineral lease allowing it to mine the North Pratt Coal Seam which is situated about 15 kilometres north of Birmingham, Alabama. There is already an existing underground mine which will be re-opened to produce coking (or metallurgical) coal. Coal Holdings is currently 100% owned by Stray Dog Mining LLC.

In addition to investing US$4 million in Coal Holdings USA, Avexa will also lend Coal Holdings up to US$6 million (A$5.82 million) at an interest rate of 6% per annum. The loan facility will be secured by a charge over Coal Holdings' assets or real property.

US$4 million represents approximately 24% of Avexa's consolidated total assets based on the value as at 30 June 2012. Avexa is currently sitting on approximately $16 million in cash and liquid investments.

Avexa's money will be used to purchase the equipment and machinery necessary to re-open the mine and commence operations in addition to meeting usual working capital requirements and transaction costs.

The remaining 74.5% of Coal Holdings will be owned by three entities: Singapore-based entrepreneur Jonathan Lim; American coal veteran Jimmie Ryan; and Wild Dog Mining Pty Ltd, an Australian private company represented by experienced mining contractor Colin Macdonald.

Ryan and Wild Dog Mining Pty Ltd currently own 100% of Coal Holdings and are selling a 51% stake to Avexa (25.5%) and Jonathan Lim (25.5%).

The North Pratt Coal Seam contains an estimated 20 million tons of metallurgical grade coal reserves. A National Instrument 43-101 geological/technical report shows a measured and estimated resource of approximately 10.5 million clean recoverable tons of in-situ metallurgical coal. Extracting the coal will take about 15 years. The mine will employ up to 100 workers, working two shifts a day. The first coal is expected to be produced within 9-12 months. Avexa expects to receive its first cash flow from its investment in about 18 months.

The mine is budgeted to produce 660,000 tons of coal a year at full production, generating US$85 million a year based on the project's business plan assumptions.

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Iain Kirkwood, Chairman of Avexa, says "the deal makes good commercial sense for Avexa. Two experts have reviewed and verified the technical and economic assumptions used in the project's business plan. Production costs are budgeted at US$50/ton. The base case metallurgical coal selling price of US$130/ton is expected to generate US$85 million a year gross. Earnings before interest and tax is expected to be US$50 million a year. Avexa's 25.5% share will earn US$12.5 million pre-tax each year or US$8.1 million after tax for the 15-year life of the mine based on these assumptions. Avexa's US$6 million loan should be repaid out of the first year's cash flow."

Mr Kirkwood said the annual surplus cash flow from the project will allow Avexa to fund internally the development of several biotechnology initiatives, including: ATC (Apricitabine, for the treatment of drug-resistant HIV); a new generation HIV Integrase inhibitor against resistant HIV; and an anti-bacterial compound for the superbug *Clostridium difficile*.

"Avexa's board understands this is a bold strategy but believes this is the best option for Avexa," said Mr Kirkwood. "Over the past 12-18 months, the board has considered and rejected a multitude of potential investment and merger opportunities many of which attributed no value to Avexa's portfolio of anti-infective projects. This opportunity stands out. We believe the model will change the paradigm for funding biotechnology, which previously has been done via multiple equity raisings and Federal and State government grants including the R&D tax rebate concessions. Many biotechs also look to big pharma to support or buy into their projects. However since the Global Financial Crisis both big pharma and shareholders have become much more risk averse and reluctant to support even late stage drug developments. Avexa shareholders have already invested over $160 million in the company since listing on ASX in 2004.

"In 2011 it became clear that Avexa's cash resources would be insufficient to fund the development of its drug candidates through late stage trials. The cost of taking the company's HIV drug ATC through Phase III trials has been conservatively estimated to cost $30-40 million. The investment in the Alabama coal project gives Avexa the best chance of locking in an annuity to develop its portfolio of drug assets in-house. Avexa is attracted to an opportunity which, for a US$10 million investment, is expected to generate US$12.5 million per annum before finance costs and tax based on the reviewed underlying project assumptions. The investment is expected to have a pay-back period of less than two years on these assumptions."

Full details of the proposed investment are contained in the Explanatory Memorandum which forms part of the Notice of Meeting for Avexa's 2012 AGM scheduled to be held on Friday 14 December 2012 in Melbourne. The Notice of Meeting is expected to be despatched to all shareholders next week.

For more information:

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

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