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 2012 and the auditor's report thereon.

Contents of Directors' Report **Page**

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

Avexa's particular areas of focus for the 2011/2012 year have been a) apricitabine (ATC), its late-stage, novel treatment for HIV infection b) its in-house HIV integrase inhibitor program and c) conserving the company's cash position. ATC is a novel nucleoside, a class of compound known to be a vital component of anti-HIV therapy. ATC offers a new extension to existing therapies in the treatment of drug-resistant HIV, especially for those patients with limited remaining therapeutic options.

During the year the ATC asset was critically reviewed in terms of commercialisation potential and steps to implement a new commercialisation strategy have been initiated. In July 2011 Avexa engaged PharmaVentures Limited to advise and assist in seeking an out-licensing partner for ATC, following the successful regulatory meeting with the FDA earlier in the year.

It has become very clear over the last few years that the number of large Pharma active in the area of HIV drug discovery and development has shrunk considerably. Moreover, the focus of those remaining in the field is to compete in the first line therapy area. Only Gilead Sciences, Bristol Myers Squibb, ViiV and Merck remain, and are focussed on competing against themselves for a share of the first line therapy market, which is presently dominated by Gilead Sciences. Their strategy to achieve a significant share of that market is to develop and market only once-a-day, low dose, single tablet combination therapies. As previously explained, ATC, with its current dosing of 800mg twice a day, does not easily fit into this model. For this reason, the development of ATC has focussed on the underserved market in later stage, resistant patients. This market segment, whilst smaller than the first line market, remains substantial, and sales forecasts performed by PharmaVentures and other independent groups have established there is a significant market for this drug. Nonetheless, large Pharma have chosen not to service this market segment, and hence the goal of finding a co-development partner for ATC was not fulfilled. However, a number of more specialised sales and marketing companies do successfully service these niche markets, and with good financial outcomes. This has been reinforced by discussions with both clinicians and patient advocates, who repeatedly stress that there is a clear need for ATC and that once approved there is a significant market for the drug.

During the year, Avexa has worked on addressing a number of areas within the ATC project which have been perceived as possible issues, such as a) the intellectual property position b) the possible long, expensive and risky route to market and c) the need for a commercial partner.

During the year we announced that we had filed two new patents covering the use of ATC in combination with a number of currently marketed drugs. The two patents are based around the analysis of clinical findings identified by the company following the full analysis of the Phase II/III data set. These patents have real commercial application as they are focused on the use of ATC and its synergistic benefits when taken with either of two existing marketed drugs. These new patents dramatically improve the Intellectual Property position for the company's ATC program, will add to the existing patent portfolio for ATC and could potentially provide patent protection for the ATC program.

With regard to the time and cost to get to market, we have followed up on the very positive responses obtained from the US FDA regarding the remaining route to approval for ATC. Considering the importance of the European market for commercialisation, the European regulatory agency EMA were approached concerning the pathway towards approval in that market. Once again, a very positive response was obtained, outlining a most expeditious, low risk, low cost route to approval. As a result, we have now clarified an expedited pathway to approval, centered on a single, rapid, low risk, low cost trial, with the two largest regulatory agencies which govern the majority of the HIV drug market. Furthermore, many other countries outside of Europe and the US follow closely the approval processes of one of both of these agencies.

With regard to the need for a commercial partner, the focus of the large pharmaceutical companies on prophylaxis and treatment of newly infected persons leaves a considerable subset of the total market open to 2nd tier and specialist pharmaceutical companies. Such specialist companies typically look for solid opportunities in market segments ignored by large pharma in their obsession for blockbuster drugs. Avexa has therefore decided to pursue a co-marketing agreement with such regional specialist pharmaceutical sales and marketing companies. Given the lower cost and low risk of the revised development pathway, and the interest shown by such regional specialist companies, this strategy is more likely to result in a good outcome for shareholders.

Avexa has initiated a global search for an appropriate set of regional specialist pharmaceutical sales and marketing companies. Many such companies exist and the most appropriate of them have been approached with non-confidential briefing documents on ATC. To date a large number of companies have progressed to requesting detailed confidential information and discussing terms and territories. The goal is to gain global coverage for sales of ATC using a small network of independent third parties.

Once the potential sales network has been established, the new business model for Avexa will be near completion. The smaller, lower risk clinical trial has been designed and its feasibility established. The sales forecasts will have been completed by ourselves and by those third parties wishing to sell ATC to establish a metric for potential revenue returns. These two aspects form a business strategy that can be valued and risks calculated and will be the basis for an investment strategy to raise the additional capital that Avexa will require to undertake the enterprise.

Owing to the difficulties in raising funds for drug development in China, the first generation HIV integrase compounds out-licensed to SIOC have progressed slowly. These compounds, whilst presenting a possible opportunity in China owing to ease and cost of synthesis, have been superseded by our second generation in-house compounds.

Progress of Avexa's anti-bacterial lead compound, AVX13616, has also been hampered by the economic climate in Europe, with concomitant difficulties in raising capital for development. Nonetheless, good progress has been made in confirming and extending the spectrum of activity of AVX13616. An extensive study of clinical bacterial isolates has been conducted which will be important in moving forward.

We continue to pursue the opportunity presented by our second generation of HIV integrase inhibitors. These inhibitors are designed to overcome the weaknesses of the current marketed compounds and thus capture a commercial opportunity. The development of resistance is an inescapable threat to many antiviral drugs, and creates a good market opportunity for improved second generation compounds such as ours. This year, we have seen substantial progress in improving the pharmacokinetic properties of the compounds, which should translate to a commercial advantage as once a day drugs. We continue to progress this promising low cost, early stage project towards an optimum commercial outcome.

Avexa's wholly owned subsidiary, AVI Capital Pty Ltd, has a substantial holding in Allied Healthcare Group (AHZ) and smaller holdings in two other listed entities. These investments collectively had a fair value of $3,679.000 as at 30 June 2012. To seek returns to offset some of its fixed operating expenses Avexa has made several liquid alternative investments through AVI Capital Pty Ltd to diversify its investment portfolio in addition to placing funds in fixed deposits, where deposit rates have been on a downward trend. Realised gains in AVI Capital Pty Ltd for the period ending 30 June 2012 were $807,707 along with unrealised losses as detailed in note 33.

These investments are not held on a long term basis.

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. Treatment with a combination of antiviral drugs which inhibit the replication of the virus can dramatically slow down the course of the disease, but drug resistance often develops. In many cases, resistance to one drug causes cross-resistance to other, as yet unused drugs. As a result, patients may have very few active drugs available to them in practice. A further problem is the unwanted side effects of many of the currently used anti-retroviral drugs, which can be intolerable or even life threatening. This can further restrict the drugs an individual patient can take. Lastly, many current drugs have significant interactions if they are given at the same time as other drugs the patient may need, such as drugs for diabetes, heart disease, hypertension, or bacterial infections. Taken together, this means that an individual patient may, in practice, have very few appropriate drugs available.

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

A comprehensive analysis and review of data from ATC clinical trials has revealed that, in contrast to the deleterious drug interactions that are known for several existing HIV drugs, ATC has instead shown particularly favourable effects in combination with two particular currently used HIV drugs. This has led to the filing of additional patents covering ATC combinations. These patents add to the intellectual property portfolio and extend the patent life surrounding ATC.

During the previous 2011 Financial Year, Avexa obtained significant support from the US FDA for an expedited route to approval, including a dramatically different, accelerated single confirmatory study, which is smaller, faster, simpler, and low risk. Whilst the largest sales of HIV drugs occur in North America, Greater Europe is also a significant market. Avexa therefore approached the European Medicines Agency (EMA) regarding the pathway to approval for ATC in Europe. The response from the EMA was consistent with that of the FDA. Thus, ATC is now well positioned for an expedited and low cost path to approval in the two single largest commercial markets for HIV drug sales.

As a result, Avexa initiated a search for one or more co-marketing partner(s) to market and sell ATC on a global or regional basis. A global search was initiated in May 2012, targeting marketing partners with specialist, global or regional expertise.

Avexa has continued to interact with both scientific and medical experts and with Community Groups representing patients' needs. These discussions have confirmed the need for a drug such as ATC. This resulted in an invitation to present ATC at the AIDS Institute satellite symposium at the 19th World AIDS conference.

Drug discovery and development

HIV Integrase

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. One of the newer key targets is the HIV integrase enzyme. This enzyme is responsible for inserting the viral genome of HIV into the host cell DNA, which is a required step in HIV replication. The first inhibitor of HIV integrase to be approved was raltegravir (Merck). Raltegravir is effective in reducing the viral load in HIV-infected patients. However, mutations in the viral integrase emerge that confer resistance to raltegravir. Also, raltegravir is dosed twice daily, and drug levels vary considerably between patients and even within the same patient from day to day. Raltegravir is also at risk of interaction with certain other drugs that are metabolised in the same way, which may cause jaundice. A second integrase inhibitor (elvitegravir; Gilead) has recently been approved, but is cross-resistant with raltegravir, and requires pharmacokinetic boosting to obtain sufficient drug levels. Dolutegravir is in clinical trials, and retains activity against raltegravir-resistant virus, but must also be dosed twice daily in resistant patients.

Avexa's integrase project is aimed at discovering compounds that a) maintain activity against virus that is resistant to raltegravir and other integrase inhibitors and b) have improved pharmacokinetic properties compared to the currently marketed integrase inhibitors.

Avexa's integrase program has made significant progress over the last year. Previously, Avexa successfully identified several series of compounds with potent integrase inhibitor activity, including against the resistant enzyme, but the pharmaceutical properties of these compounds were not ideal, resulting in low levels of drug in the plasma. Over the year, the pharmacokinetic properties have been improved significantly, resulting in higher and more sustained levels of drug, likely to be suited to once daily dosing. Two different compound classes are being examined in order to rank the compounds for further development.

Antibacterial project

Avexa's antibacterial portfolio was licensed to Valevia in November 2010. Progress of Avexa's anti-bacterial lead compound, AVX13616, has also been hampered by the economic climate in Europe, with concomitant difficulties in raising capital for development. Nonetheless, good progress has been made in confirming and extending the spectrum of activity of AVX13616. An extensive study of clinical bacterial isolates has been conducted which will be important in moving forward. The studies have indicated AVX13616 to be superior to the standard of care antibiotics against a number of important and antibiotic-resistant clinical isolates. Furthermore, a number of additional opportunities for AVX13616 have also been identified, not only in the areas of other types of bacterial skin infections but also some specific systemic indications as well.

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 2012 there were no issues of share capital.

Full details of movements in share capital for the year are detailed in Note 18 to the financial statements. There were no changes to the corporate structure of Avexa Limited during the financial year ended 30 June 2012.

Unissued shares under option

During the year nil (2011: nil) options to acquire ordinary shares were issued to staff, nil (2011: nil) to executive officers, nil (2011: 1,500,000) to the Interim CEO/ Chief Scientific Officer and 5,000,000 (2011: nil) to directors. Terms and conditions of options issued are provided in the Remuneration Report. Nil (2011: nil) options were exercised during the financial year for total proceeds of $nil (2011: $nil). 5,990,000 (2011: 200,000) options lapsed during the financial year and 1,360,000 (2011: 7,545,000) options were forfeited upon the departure of directors or employees during the financial year.

At 30 June 2012 there were 7,270,000 options (30 June 2011: 5,620,000) on issue to directors, executives and employees and nil (2011:4,000,000) to Shire Canada Inc. There have been 7,350,000 (2011: 7,745,000) options lapsed or forfeited, nil (2011: nil) approved to be issued and nil (2011: 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 Group 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:			
1,180,000	$0.31	$0.30	30 June 2013
200,000	$0.54	$0.53	30 June 2013
200,000	$0.62	$0.30	30 June 2013
190,000	$0.13	$0.13	18 June 2014
1,500,000	$0.06	n/a	31 Dec 2012
3,270,000			
Non-employee options:			
4,000,000	$0.06	n/a	31 Dec 2013
7,270,000			

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

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 (60) *Qualifications: MA (Hons) Oxon, FCPA, CA, MAICD*	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 (58) *Qualifications: BAppSc. (Pharmacy), GAICD*	Mr Hewett joined the Board on 6 July 2010 as a Non-Executive Director of the Company and is a member of the Avexa Audit Committee and Chairman of the Avexa Remuneration and Nomination Committee. He brings more than 25 years experience in the pharmaceutical and healthcare industries. He is a 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 Allan Tan Independent Non-Executive Director (47) *Qualifications: LLB (Hons) University of Buckingham (U.K)* *Barrister-at-Law (Gray's Inn)* *MA London-Guildhall University (U.K)*	Mr Tan joined the Board on 1 December 2010. He is a Non-Executive Director of the company and is a member of both the Avexa Audit Committee and the Avexa Remuneration and Nomination Committee. He is also an Independent Director of Singapore listed companies, Adventus Holdings Limited and CNMC Goldmine Holdings Limited. Mr Tan is a partner in a Singapore law firm, Colin Ng and Partners LLP.

Mr Handojo (Jet) Soedirdja was an Independent Non-Executive Director and member of the Remuneration and Nomination Committee from 12 July 2010 until his resignation on 31 January 2012.

Company Secretary

Mr Lee Mitchell BA LLM.

Mr Mitchell was appointed as Company Secretary of Avexa Limited on 1 December 2010. He is a qualified lawyer and has 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	2,000,000
Mr B Hewett	100,000	1,000,000
Mr A Tan	-	1,000,000

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 I Kirkwood	11	11	4	4	1	1
Mr B Hewett	11	11	4	4	1	1
Mr H Soedirdja	7	7	2	2	-	-
Mr A Tan	11	11	4	4	1	1

(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

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 2012 and is set out on page 16.

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	$ 37,275
Other assurance services	$ 14,100
Total Non-audit services	$ 51,375

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 12. 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 $15,000 (2011: $81,500) has been accrued at the end of the 2012 financial year by way of an employee benefit provision in respect of performance incentives for the 2012 financial year. $15,000 (2011: $81,500) was paid in the July 2012 payroll in respect of staff performance for the 2012 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 medium to long term incentive for performance and loyalty. Any such options are issued under the Employee Share Option Plan (**ESOP**).

2012:

No issues of options occurred in 2012.

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)
Expiry	31 December 2012

(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).

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.

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

Directors' and Executive Officers' compensation tables

Details of the nature and amount of each major element of the compensation of each director of the Company and each of the 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 2012 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 2012 and 2011 tables

(i) Performance incentive payments

The bonus/incentive compensation value in 2011 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.

2012:

	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)	84,006	-	-	21,000	5,520	-	107,766
Mr B Hewett (ii)	55,000	-	-	-	2,760	-	56,380
Mr H Soedirdja (iii)	29,167	-	-	-	-	-	29,167
Mr A Tan (iv)	50,000	-	-	-	2,760	-	51,380
Total compensation	**218,173**	**-**	**-**	**21,000**	**11,040**	**-**	**244,693**
Executives							
Key Management Personnel							
Dr J Coates (v)	172,924	-	-	44,514	15,083 (6.5%)	-	232,521
Ms M Klapakis (vi)	128,175	-	8,000 (5.4%)	12,628	293 (.2%)	-	149,096
Total compensation	**301,099**	**-**	**8,000**	**57,142**	**15,376**	**-**	**381,617**

(i) Appointed on 9 August 2010. Appointed Chairman on 18 April 2011.
(ii) Appointed on 6 July 2010.
(iii) Appointed on 12 July 2010. Resigned on 31 January 2012.
(iv) Appointed on 1 December 2010.
(v) Ceased employment on 7 May 2010. Re-appointed on 12 July 2010.
(vi) Appointed on 1 December 2010.

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 (vii)	81,919	-	-	-	-	-	81,919
Mr N Drona (viii)	9,167	-	-	-	-	-	9,167
Mr D Bottomley (ix)	1,108	-	-	-	-	-	1,108
Mr U Ratner (x)	1,129	-	-	-	-	-	1,129
Mr S Crowley(xi)	16,098	-	-	-	-	-	16,098
Total compensation	**281,980**	**-**	**-**	**20,109**	**-**	**-**	**302,089**
Executives							
Key Management Personnel							
Dr J Coates (v)	182,693	-	50,000 (14.3%)	21,923	94,026 (27.0%)	-	348,642
Ms M Klapakis (vi)	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. Resigned on 31 January 2012.
(iv) Appointed on 1 December 2010.
(v) Ceased employment on 7 May 2010. Re-appointed on 12 July 2010.
(vi) Appointed on 1 December 2010.
(vii) Resigned on 18 April 2011.
(viii) Ceased appointment on 6 July 2010.
(ix) Resigned on 7 July 2010.
(x) Ceased employment on 6 July 2010.
(xi) Resigned on 5 November 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 36 of this report.

2012:

Directors, Executives and title	Options granted		Number and % vested in year	Financial years In which Grant vests	Value yet To vest in $
Directors:	**Number**	**Date**			
Mr I Kirkwood	2,000,000	19 December 2011	100%	2012	nil
Mr B Hewett	1,000,000	19 December 2011	100%	2012	nil
Mr A Tan	1,000,000	19 December 2011	100%	2012	nil
	4,000,000				**nil**

Shareholder approval was given on 24 November 2011 to the issue on 19 December 2011 of the following options during the year end 30 June 2012.

(i) A total of 5,000,000 options with an exercise price of $0.06 each expiring on 31 December 2013 and exercisable only when the performance condition is met (see below).
(ii) 1,000,000 options granted to Mr H Soedirdja were issued but then forfeited due to his resignation on 31 January 2012.
(iii) 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).

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.

(iv) 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).

(v) 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).

2012:

There were 5,000,000 issued during the 2012 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
2,000,000 Mr I Kirkwood	19 December 2011	31 December 2013	$0.0069	$0.06	$0.033	3.01%	75%
1,000,000 Mr B Hewett	19 December 2011	31 December 2013	$0.0069	$0.06	$0.033	3.01%	75%
1,000,000 Mr A Tan	19 December 2011	31 December 2013	$0.0069	$0.06	$0.033	3.01%	75%
1,000,000 Mr H Soedirdja	19 December 2011	31 December 2013	$0.0069	$0.06	$0.033	3.01%	75%

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%

Shares issued on exercise of options

During the financial year the Company issued nil (2011: nil) ordinary shares upon the exercise of options for total proceeds of $nil (2011: $nil). Since the end of the financial year up to the date of this report the Company has issued nil (2011: nil) shares upon exercise of options for total proceeds of $nil (2011: $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 24th day of August, 2012.

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 2012 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 McDonald
Paul McDonald
Partner

Melbourne

24 August 2012

AVEXA LIMITED ABN 53 108 150 750

Statement of comprehensive income		**Consolidated**	
For the year ended 30 June 2012	Note	**2012**	2011
		$'000	$'000
Revenue from operating activities	4	**564**	91
Other revenue	4	**523**	379
Contract research and development expenses	5(a)	**(557)**	(1,091)
Employee expenses		**(1,184)**	(1,566)
Share-based payment expense	20	**(27)**	(113)
Depreciation expense and loss on disposal of plant and equipment	5(b)	**(144)**	(223)
Occupancy expenses		**(1,463)**	(1,139)
Consulting expenses		**(97)**	(583)
Professional services expenses		**(206)**	(658)
Travel and accommodation expenses		**(48)**	(352)
Raw materials and consumables expenses		**(12)**	(13)
Asset management expenses		**(46)**	(66)
Insurance expenses		**(103)**	(149)
Corporate administration expenses		**(117)**	(239)
Intellectual property expenses		**(315)**	(312)
Other expenses	5(c)	**(143)**	(205)
Results from operating activities		**(3,375)**	(6,239)
Finance income/ (costs)	33	**(138)**	1,185
Loss before income tax		**(3,513)**	(5,054)
Income tax benefit	7	**-**	(652)
Loss from operations for the period		**(3,513)**	(4,402)
Loss attributable to owners of the company	19	**(3,513)**	(4,402)
Other comprehensive income (net of tax)			
Net change in fair value of available for sale financial assets		**(5,840)**	6,275
Total comprehensive income/(loss) for the period		**(9,353)**	1,873
Earnings per share			
Basic earnings per share (ordinary shares)		**(0.4)**	(0.5)
Diluted earnings per share (ordinary shares)		**(0.4)**	(0.5)

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 21 to 44.

AVEXA LIMITED ABN 53 108 150 750

Statement of changes in equity		**Consolidated**			
For the year ended 30 June 2012	Note	**Issued capital**	**Accumulated losses**	**Fair value reserve**	**Total Equity**
		$'000	**$'000**	**$'000**	**$'000**
Opening balance as at 1 July 2011		**182,523**	**(162,443)**	**6,275**	**26,355**
Comprehensive income/(loss) for the period					
Loss	19	**-**	(3,513)	-	(3,513)
Total other comprehensive income				(5,840)	(5,840)
Total comprehensive income for the period		**-**	**(3,513)**	**(5,840)**	**(9,353)**
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		**-**	27	-	27
Total contributions by owners		-	27	-	27
Total transactions with owners	19	**-**	**27**	**-**	**27**
Closing balance as at 30 June 2012		**182,523**	**(165,929)**	**435**	**17,029**

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	19	**-**	(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**

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 21 to 44.

AVEXA LIMITED ABN 53 108 150 750

Statement of financial position		**Consolidated**	
as at 30 June 2012	Note	**2012**	2011
		$'000	$'000
Current assets			
Cash assets	9	**12,570**	16,387
Receivables	10	**822**	936
Investments	11	**3,679**	1,210
Other	12	**224**	60
Total current assets		**17,295**	18,593
Non-current assets			
Investments	11	**-**	7,776
Intangibles	13	**-**	-
Property, plant and equipment	14	**325**	459
Total non-current assets		**325**	8,235
Total assets		**17,620**	26,828
Current liabilities			
Payables	15	**284**	257
Employee benefits	16	**79**	128
Other	17	**201**	35
Total current liabilities		**564**	420
Non-current liabilities			
Employee benefits	16	**27**	18
Other	17	**-**	35
Total non-current liabilities		**27**	53
Total liabilities		**591**	473
Net assets		**17,029**	26,355
Equity			
Issued capital	18	**182,523**	182,523
Fair value reserve		**435**	6,275
Accumulated losses	19	**(165,929)**	(162,443)
Total equity		**17,029**	26,355

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 21 to 44.

AVEXA LIMITED ABN 53 108 150 750

Statement of cash flows		**Consolidated**	
For the year ended 30 June 2012	Note	**2012**	2011
		$'000	$'000
Cash flows from operating activities			
Cash receipts in the course of operations		**649**	388
Cash payments in the course of operations		**(4,422)**	(6,801)
Government Grants		**657**	-
Interest received		**817**	1,261
Net cash used in operating activities	21	**(2,299)**	(5,152)
Cash flows from investing activities			
Payments for property, plant and equipment		**(10)**	(29)
Payments for equity investments		**(5,086)**	(2,738)
Proceeds from disposal of equity investments		**3,578**	-
Net cash used in investing activities		**(1,518)**	(2,767)
Net (decrease) / increase in cash held		**(3,817)**	(7,919)
Cash at the beginning of the financial year		**16,387**	24,305
Effect of exchange rate fluctuations on cash held			-
Cash at the end of the financial year	9	**12,570**	16,387

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 21 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 2012 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 2012. 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 2012, the Company had $12.6 million of funds available to undertake all forecast activities for the 2013 financial year and beyond in accordance with the Company's strategy. This strategy includes providing sufficient working capital for the Company beyond the 2013 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 13 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 costs are discussed in Note 3(c).

(c) Finance income and costs

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

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

(d) Goods and services tax

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

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

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

(e) Foreign currency

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

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

(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 two business segments comprising anti-infective research and development and listed investments. Although the Group's clinical trials are conducted in a number of countries there is no meaningful way of presenting geographically segmented results, particularly given these operations do not currently generate revenue.

(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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB9 Financial Instruments, which becomes mandatory for the Group's 2016 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4 Revenue

	Consolidated 2012	2011
	$'000	$'000
Grant income	**6**	91
R&D Incentive (*)	**558**	-
Total revenue from operating activities	**564**	91
Lease income	**522**	379
Other Income	**1**	-
Total other revenue	**523**	379

(*) Entitlements to refundable tax effects of the new Research and Development incentive programme effective from 1 July 2011 have been recognised as government R&D incentive income in accordance with the accounting standard AASB 120 Government Grants and disclosure of Government Assistance. This is a different presentation requirement compared to prior year when R&D tax incentives were presented as the income tax benefits.

5 Profit before related income tax expense

a) Individually material items included in profit before related income tax expense:

	2012	2011
Contract research and development expenditure	**557**	1,091
Direct research and development expenditure	**905**	1,396
Research and Development	**1,462**	2,487
Impairment of Marketing Licence	**-**	-

b) Profit before related income tax expense has been arrived at after charging the following items:

	2012	2011
Depreciation of plant and equipment	**144**	178
Amounts transferred to provisions for employee entitlements (Note 27)	**40**	97
Superannuation payments to defined contribution plans	**123**	110

c) Other expenses

	2012	2011
Advertising and promotion	**35**	99
Workplace administration	**31**	41
Finance expenses	**63**	5
Other expenses	**14**	60
Total other expenses	**143**	205

6 Auditor's remuneration

Audit services:	**$**	$
Auditors of the Company	**63,000**	60,000
Total audit services	**63,000**	60,000
Other services:		
Accounting advice	**-**	-
Tax compliance and advisory services	**37,275**	9,500
Other assurance services	**14,100**	26,000
Other advisory services	**-**	-
Total other services	**51,375**	35,500

7 Income Tax

	Consolidated 2012	2011
	$'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	**(3,513)**	(5,054)
Income tax using the domestic corporation tax rate of 30% (2011: 30%)	**(1,054)**	(1,516)
Change in unrecognised temporary differences	**12**	51
Increase in income tax expense due to:		
Non-deductible expenses	**545**	55
Deferred tax assets not brought to account	**461**	1,961
Research and development allowance	**204**	-
Decrease in income tax expense due to:		
Items deductible for tax purposes	**(168)**	(421)
Research and development allowance	**-**	(130)
Income tax expense on pre-tax net loss	**-**	-
Unused tax losses for which no deferred tax asset has been recognised	**140,548**	139,012
Potential tax benefit at 30%	**42,164**	41,704

(*) Entitlements to refundable tax effects of the new Research and Development incentive programme effective from 1 July 2011 have been recognised as government R&D incentive income in accordance with the accounting standard AASB 120 Government Grants and disclosure of Government Assistance. This is a different presentation requirement compared to prior year when R&D tax incentives were presented as the income tax benefits.

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 Cash assets

	2012	2011
Cash at bank and on hand	**256**	235
Bank short term deposits	**12,314**	16,152
Total cash assets	**12,570**	16,387

Financing arrangements

At 30 June 2012 the Company had a credit card facility of $150,000 of which Nil was used as at 30 June 2012 (2011: $nil). Interest on cash at bank is credited at prevailing market rates. The weighted average interest rate at reporting date was 5.6% (2010: 5.9%).

10 Receivables

	Consolidated 2012 $'000	2011 $'000
Current		
Trade and other receivables	**246**	284
R&D Incentives and other tax receivables	**576**	652
Total Receivables	**822**	936

11 Investments

	2012	2011
Current		
Financial assets classified as held for trading	**900**	1,210
Financial assets classified as available for sale	**2,779**	-
	3,679	1,210
Non- Current		
Financial assets classified as available for sale	**-**	7,776

Non-Current investment is related to the fair value of the investment in Allied Healthcare Group as at 30 June 2011.

12 Other assets

	2012	2011
Current		
Prepayments	**224**	60

13 Intangible assets

	2012	2011
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.

For the financial year 2012, the directors still consider the Intangible assets nil valuation is appropriate.

	Consolidated	
	2012	2011

14 Property, plant and equipment

Plant and equipment (at cost)	**1,378**	1,368
Less: Accumulated depreciation	**(1,053)**	(909)
Total property, plant and equipment	**325**	459
Reconciliation - Plant and equipment		
Carrying amount at the beginning of the financial year	**459**	653
Additions	**10**	29
Disposals	**-**	(45)
Depreciation	**(144)**	(178)
Carrying amount at the end of the financial year	**325**	459

15 Payables

Trade creditors and accruals	**284**	257

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

16 Employee benefits provisions

	2012	2011
	$'000	$'000
Current		
Employee benefits (Note 27)	**79**	128
Non- Current		
Employee benefits (Note 27)	**27**	18

17 Other liabilities

Current		
Unearned income	**78**	-
Onerous contracts provision	**123**	35
Total Other liabilities	**201**	35
Non-Current		
Onerous contracts provision	**-**	35

The Company is a party to a non-cancellable lease for office and laboratory space. The Company ceased to use part of these premises by 30 June 2010. The lease expires 26 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.

18 Issued capital

Terms and conditions of ordinary shares

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

Options to acquire ordinary shares

During the financial year nil (2011: 1,500,000) options were issued to employees under the Avexa Employee Share Option Plan, 5,000,000 (2011: nil) options were issued to directors. 3,350,000 (2011: 7,745,000) options held by employees or directors lapsed or were forfeited and nil (2011: nil) were exercised. 4,000,000 (2011: nil) held by Shire Canada Inc lapsed. Movements in options for the current and prior year are provided in the following tables.

2012 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 27)	5,620,000	-	(2,350,000)	-	3,270,000
Total Directors options	-	5,000,000	(1,000,000)	-	4,000,000
Shire options (Note 23)	4,000,000	-	(4,000,000)	-	-
Total options	**9,620,000**	**5,000,000**	**(7,350,000)**	**-**	**7,270,000**

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 27)	11,865,000	1,500,000	(7,745,000)	-	5,620,000
Shire options (Note 22)	4,000,000	-	-	-	4,000,000
Total options	**15,865,000**	**1,500,000**	**(7,745,000)**	**-**	**9,620,000**

Issued and paid up capital	**2012**		2011	
	$'000	**Number**	$'000	Number
847,688,779 (2011: 847,688,779) ordinary shares, fully paid	**182,523**	**847,688,779**	182,523	847,688,779

Movements in issued capital during the year were as follows:

Balance at the beginning of the financial year	182,523	847,688,779	182,523	847,688,779
Issue of shares pursuant to Share Purchase Plan	-	-	-	-
Issue of shares pursuant to placement	-	-	-	-
Transaction costs relating to Rights Issue and placements	-	-	-	-
Issued capital at the end of the financial year	**182,523**	**847,688,779**	182,523	847,688,779

19 Accumulated losses

	Consolidated	
	2012	2011
	$'000	$'000
Accumulated losses at the beginning of the financial year	**(162,443)**	(158,154)
Share-based payment expense	**27**	113
Net loss attributable to members of the Company	**(3,513)**	(4,402)
Accumulated losses at the end of the financial year	**(165,929)**	(162,443)

20 Commitments

	Consolidated 2012	2011
(a) Non-cancellable operating lease expense commitments		
Future operating lease commitments not provided for in the financial statements and payable:		
- Within one year	**948**	882
- One year or later and no later than five years	**-**	913
- Greater than five years	**-**	-
	948	1,795

For the 2012 financial year the commitments shown are net of the onerous contract provision as disclosed in Note 17.
The principal operating lease commitment other than immaterial office equipment leases is the Company's premises lease agreement which expires on 26 June 2013 and for the 2013 financial year represents a commitment of $885,000.

	Consolidated 2012	2011
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	**82**	387
- One year or later and no later than five years	**-**	-
	82	387

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

21 Notes to the statement of cash flows

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

	Consolidated 2012	2011
	$'000	$'000
Cash at bank and on hand	**256**	235
Bank short term deposits	**12,314**	16,152
Cash assets (Note 9)	**12,570**	16,387

	2012	2011
Reconciliation of loss after related income tax to net cash used in operating activities		
Loss after income tax	**(3,513)**	(4,402)
Add non-cash & non-operating items:		
- Depreciation	**144**	223
- Share-based payment expense	**27**	113
- Impairment of marketing licence	**-**	-
- Investment loss on revaluation	**975**	28
Change in working capital and provisions		
- (Increase) / decrease in Receivables	**114**	(595)
- (Increase) / decrease in Other assets	**(164)**	117
- Increase / (decrease) in Employee benefits	**(40)**	97
- Increase / (decrease) in Deferred income	**78**	-
- Increase / (decrease) in Payables	**27**	(434)
- Increase / (decrease) in Other liabilities	**53**	(299)
Net cash used in operating activities	**(2,299)**	(5,152)

21 Notes to the statement of cash flows (continued)

Non-cash financing and investing activities

There have been no non-cash financing and investing transactions during the 2012 financial year which have had a material effect on assets and liabilities of the Group.

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.

22 Earnings per share

	Consolidated	
	2012	2011
	$'000	$'000
a) Earnings reconciliation		
Net loss:		
Basic earnings	**(3,513)**	(4,402)
Diluted earnings	**(3,513)**	(4,402)
b) Weighted average number of shares		
Number for basic earnings per share:	**Number**	Number
Ordinary shares	847,688,779	847,688,779
Number for diluted earnings per share:		
Ordinary shares	847,688,779	847,688,779
Effect of share options on issue #	**11,181,801**	9,177,088
Weighted average number of ordinary shares (diluted)	**858,870,580**	856,865,867

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 expired on 17 January 2012.

23 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 $2.4M 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.

23 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 (2011: nil).

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

	2012				**2011**			
	GBP	**USD**	**Euros**	**CNY (China)**	**GBP**	**USD**	**Euros**	**CNY (China)**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Bank accounts	24	45	-	-	24	56	-	-
Receivables	-	-	-	-	-	-	-	-
Payables	-	-	-	-	(6)	(42)	-	-
Gross balance sheet exposure	24	45	-	-	18	14	-	-

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 2012 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 2011. There is no impact on equity.

	2012 Profit and loss		**2011 Profit and loss**	
Exposure	**Strengthening**	**Weakening**	**Strengthening**	**Weakening**
	$'000	**$'000**	**$'000**	**$'000**
Gross balance sheet exposure	(6)	7	(3)	4

The following significant exchange rates applied during the financial year:

	Average rate		**Reporting date spot rate**	
Currency	**2012**	**2011**	**2012**	**2011**
GBP	**0.65**	0.62	**0.65**	0.67
USD	**1.03**	0.99	**1.02**	1.07
Euro	**0.77**	0.72	**0.81**	0.74
CNY (China)	**6.56**	6.54	**6.48**	6.94

(ii) Interest rate risk

The effective weighted average interest rate used to discount the Long Service Leave provision is 6.0% (2011: 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 2012	9	**5.6**	**301**	**12,200**	**69**	**12,570**
Cash assets – at 30 June 2011	9	**5.9**	**206**	**16,100**	**81**	**16,387**

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 $62,851 (2011: $81,931), assuming that all other variables, including foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

23 Financial instruments disclosure and financial risk management (continued)

(ii) Interest rate risk (Continued)

	2012 Profit and loss		2011 Profit and loss	
	Strengthening	Weakening	Strengthening	Weakening
	$'000	$'000	$'000	$'000
Cash at bank – variable interest rate:				
AUD	63	(63)	82	(82)

(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 Incentive 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 2012	10	812	10	**822**
Receivables – at 30 June 2011	10	936	-	**936**

(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 2012	15	284	**-**	**284**
Creditors and other accruals – at 30 June 2011	15	257	**-**	**257**

23 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.

24 Related parties

Disclosures of compensation policies, service contracts and details of compensation are included in the Remuneration Report on pages 8 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 A Tan (Appointed 1 December 2010)
Mr H Soedirdja (Appointed 12 July 2010) (Resigned on 31 January 2012)

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 July 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 "employee expenses" are as follows:

Nature of compensation	2012 $'000	2011 $'000
Short-term employee benefits	**519**	641
At-risk performance benefits	**8**	70
Other short term benefits	**-**	-
Post-employment benefits	**78**	58
Termination benefits	**-**	117
Share-based payment	**21**	109
Total compensation	**626**	995

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). The 4 million options held by Shire Canada Inc with an exercise price of 63.2 cents expired on 17 January 2012. 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.

24 Related parties (continued)

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

2012:

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
5,000,000 to Directors	19 December 2011	31 December 2013	$0.0069	$0.06	$0.033	3.01%	75%	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).

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	4.92%	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).

2012:

	Number of options held at 1 July 2011	Number of options issued during year	Number of options lapsed during year	Number of options held at 30 June 2012	Number of options vested at 1 July 2011	Number of options vested during the year	Number of vested options lapsed during year	Number of options vested at 30 June 2012
Directors								
Mr I Kirkwood	-	2,000,000	-	2,000,000	-	2,000,000	-	2,000,000
Mr B Hewett	-	1,000,000	-	1,000,000	-	1,000,000	-	1,000,000
Mr A Tan	-	1,000,000	-	1,000,000	-	1,000,000	-	1,000,000
Mr H Soedirdja	-	1,000,000	(1,000,000)	-	-	1,000,000	(1,000,000)	-
Executives								
Dr J Coates (i)	4,150,000	-	(1,000,000)	3,150,000	3,490,000	660,000	(1,000,000)	3,150,000
Ms M Klapakis	225,000	-	(200,000)	25,000	215,000	10,000	(200,000)	25,000
Mr S Kerr (ii)	900,000	-	(900,000)	-	540,000	-	(540,000)	-
Total Executives	**5,275,000**	**5,000,000**	**(3,100,000)**	**7,175,000**	**4,245,000**	**5,670,000**	**(2,740,000)**	**7,175,000**

(i) Dr Coates left the company in May 2010. He was re-employed on 12 July 2010 on a full time basis. His option terms remain as per those at issue date.

(ii) 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 the previous financial year were varied and extended by 12 months. There was no difference between the total fair value of the options immediately before the variation and immediately afterwards and the financial effect is not quantifiable.

24 Related parties (continued)

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

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 (iii) (to 6 May 2010)	300,000	-	(300,000)	-	300,000	-	(300,000)	-
Executives								
Dr J Coates (i)	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 (iii) (to 7 May 2010)	2,335,000	-	(2,335,000)	-	1,165,000	-	(1,165,000)	-
Dr J Deadman (iii) (to 18 June 2010)	2,365,000	-	(2,365,000)	-	1,102,000	-	(1,102,000)	-
Dr D Rhodes (iii) (to 18 June 2010)	2,415,000	-	(2,415,000)	-	1,149,000	-	(1,149,000)	-
Mr S Kerr (ii)	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) Dr Coates was re-employed on 12 July 2010 on a full time basis. His option terms remain as per those at issue date.

(ii) 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.

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

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.

2012 Directors:

	Holding of Ordinary Shares at 1 July 2011 (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 2012 (or date of resignation)
Directors	**Number**	**Number**	**Number**	**Number**
Mr I Kirkwood	650,000	-	-	650,000
Mr B Hewett	100,000	-	-	100,000
Mr J Soedirdja (i)	1,325,715	-	-	1,325,715
Mr A Tan	-	-	-	-
Total directors	**2,075,715**	**-**	**-**	**2,075,715**

(i) Resigned on 31 January 2012.

24 Related parties (continued)

2011 Directors:

Directors	Holding of Ordinary Shares at 1 July 2010 (or date of appointment) Number	Shares sold on market during the financial year Number	Shares acquired on market during the financial year Number	Holding of Ordinary Shares at 30 June 2011 (or date of resignation) 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
Total directors	**345,715**	**-**	**2,012,479**	**2,358,194**

(i) Resigned on 18 April 2011.
(ii) Resigned 5 November 2010

2012 Executives:

Executives	Holding of Ordinary Shares at 1 July 2011 Number	Shares sold on market during the financial year Number	Shares acquired via Rights Issue during the financial year Number	Holding of Ordinary Shares at 30 June 2012 Number
Dr J Coates	1,032,519	-	-	1,032,519
Ms M Klapakis	69,029	-	-	69,029
Total executives	**1,101,548**	**-**	**-**	**1,101,548**

2011 Executives:

Executives	Holding of Ordinary Shares at 1 July 2010 Number	Shares sold on market during the financial year Number	Shares acquired via Rights Issue during the financial year Number	Holding of Ordinary Shares at 30 June 2011 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**

Loans and other transactions with Key Management Personnel

There were no loans made to directors or executives or other loan movements during the 2012 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 2012 or 2011 financial years and there were no material contracts with, amounts receivable from or payable to interests involving directors or executives at period end.

25 Non-Key Management Personnel related parties

There were no material transactions with non-director related parties during either the 2012 or 2011 financial years.

26 Contingent liabilities

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

27 Employee benefits

Aggregate liability for employee benefits, including on-costs:

	Consolidated	
	2012	2011
Current – Employee benefits provision:	**$'000**	$'000
Annual leave and long service leave entitlements	**64**	46
Performance incentive entitlements	**15**	82
Non-current – Employee benefits provision:		
Long service leave entitlement	**27**	18
Total employee benefits	**106**	146

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	46	18	82	146
Payments made	(40)	-	(82)	(122)
Charges raised	58	9	15	82
Balance at the end of the year	**64**	**27**	**15**	**106**

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:

	2012	2011
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)	**6**	8

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 2012 issued nil (2011: nil) options over unissued shares under the rules of the ESOP. 2,350,000 (2011: 7,745,000) of these options were forfeited or lapsed during the financial year and nil (2011: nil) options issued in a prior year were exercised during the financial year for total proceeds of $nil (2011: $nil), at a weighted average exercise price of $nil (2011: $nil). The ESOP rules include the following terms and conditions:

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

27 Employee benefits (continued)

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

2012:

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
25 May 2007	30 April 2012	$0.63 / *$0.62*	1,450,000	-	(1,450 000)	-
10 Sept 2008	30 June 2013	$0.31 / *$0.30*	1,180,000	-	-	1,180,000
10 Sept 2008	30 June 2013	$0.54 / *$0.53*	200,000	-	-	200,000
10 Sept 2008	30 June 2013	$0.62 / *$0.61*	200,000	-	-	200,000
18 June 2009	18 June 2014	$0.13 / *$0.13*	1,090,000	-	(900,000)	190,000
3 May 2011	31 Dec 2012	*$0.06* / *$0.06*	1,500,000	-	-	1,500,000
Total employee options on issue			**5,620,000**	**-**	**(2,350,000)**	3,270,000

\# 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.

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

The Options expire on 31 December 2013. 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.

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 the 2011 financial year were 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:

27 Employee benefits (continued)

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).

28 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.

29 Dividends

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

30 Segment reporting
Information about reportable segments

	Research & Development		Listed Investments		Total	
	2012	2011	**2012**	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenues	1,087	470	(975)	-	112	470
Inter-segment revenue	-	-	-	-	-	-
Interest revenue	825	1,185	10	-	835	1,185
Depreciation	144	223			144	223
Reportable segment profit / (loss) before tax	(2,498)	(5,020)	(1,015)	(34)	(3,513)	(5,054)
Reportable segment assets	13,923	25,618	3,697	1,210	17,620	26,828
Reportable segment liabilities	591	473	-	-	591	473

The Group comprises of the following main business segments:

1) Research and Development – the operation of conducting anti-infective research and development.
2) Listed investments – investing in the share market.

Reconciliation of reportable segment profit or loss

	2012	**2011**
	$'000	$'000
Total profit or loss for reportable segments before tax	(3,513)	(5,054)
Profit or loss before tax of other business activities and operating segments	-	-
Elimination of inter-segment profits	-	-
Elimination of discontinued operations	-	-
Unallocated amounts:		
Other corporate expenses	-	-
Share of profit of equity accounted investees	-	-
Profit / (loss) before tax	(3,513)	(5,054)

31 Group entities

Significant subsidiaries

For the year ending 30 June 2012	Country of Incorporation	Ownership interest	
		2012	2011
AVI Capital Pty Ltd	Australia	100	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 2012 the parent entity of the Group was Avexa Limited.

	2012	2011
	$'000	$'000
Results of parent entity		
Profit (Loss) for the period	**(2,486)**	(4,303)
Other comprehensive income	**-**	-
Total comprehensive income for the period	**(2,486)**	(4,303)
Financial position of parent entity at year end		
Current assets	**19,106**	19,814
Total assets	**19,432**	28,049
Current liabilities	**564**	455
Total liabilities	**591**	473
Total equity of the parent entity:		
Share capital	**182,523**	182,523
Revaluation reserve	**-**	6,275
Retained earnings	**(163,682)**	(161,222)
Total equity	**18,841**	27,576

33 Finance income and finance costs

	Consolidated	
	2012	2011
	$ '000	$ '000
Recognised in profit or loss		
Interest income on unimpaired held-to-maturity investments	**837**	1,185
Net gain on disposal of available -for-sale financial assets transferred from equity	**93**	-
Finance income	**930**	1,185
Net change in fair value of financial assets at fair value through profit or loss:		
Held for trading	**(1,068)**	-
Finance costs	**(1,068)**	-
Net finance income/(costs) recognised in profit or loss	**(138)**	1,185

33 Finance income and finance costs (continued)

The above finance income and finance costs include the following interest income in respect of assets not at fair value through profit or loss:

Total interest income on financial assets	837	1,185
Recognised in other comprehensive income		
Net change in fair value of available-for-sale financial assets	**5,925**	6,275
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	**(85)**	-
Finance income recognised in other comprehensive income	**5,840**	6,275

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 2012 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 2012.

Dated at Melbourne this 24th day of August, 2012.

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 statements of financial position as at 30 June 2012, and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

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

Independence

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

KPMG

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 and the Group's financial position as at 30 June 2012 and of their 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 8 to 15 of the directors' report for the year ended 30 June 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Paul J McDonald

Paul J McDonald

Partner

Melbourne

24 August 2012