Avecho Biotechnology Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Avecho Biotechnology Limited
ABN:	32 056 482 403
Reporting period:	For the year ended 31 December 2021
Previous period:	For the year ended 31 December 2020

2. Results for announcement to the market

				$
Revenues from ordinary activities	up	106.3%	to	793,600
Loss from ordinary activities after tax attributable to the owners of Avecho Biotechnology Limited	up	29.7%	to	(3,416,116)
Loss for the year attributable to the owners of Avecho Biotechnology Limited	up	29.7%	to	(3,416,116)

Explanation of loss from ordinary activities after tax

Total revenue increased by 106% for the year to $793,600 (2020: $384,627), mainly attributable Vital ET® sales made to Ashland during the year.

Other income increased by 47% to $1,144,568 (2020: $778,476), attributed to R&D tax incentives of $1,124,946 (2020: $360,309).

Expenses from continuing operations increased by 39% to $5,068,621 (2020: $3,654,241), largely due to higher research and development cost of $2,134,259 (2020: $836,829).

At the end of December 2021, the Consolidated Entity held $3,264,764 in cash and cash equivalents (2020: $1,872,776). The net assets of the Consolidated Entity increased by $1,882,170 to $4,536,590 as at 31 December 2021(2020: $2,654,420). Working capital, being current assets less current liabilities, was $4,112,078 (2020: $2,087,020).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.24	0.14

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period
There were no dividends paid, recommended or declared during the current financial period.

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Attachments

Details of attachments (if any):

The preliminary 2021 annual report of Avecho Biotechnology Limited is attached.

11. Signed

Signed ______________________________ Date: 25 February 2022

Dr Gregory Collier
Chairman

Avecho Biotechnology Limited

ABN 32 056 482 403

Annual Report - 31 December 2021

Directors	Dr Gregory Collier (Chairman) Dr Ross Murdoch (Non-Executive Director) Mr Matthew McNamara (Non-Executive Director)
Chief Executive Officer	Dr Paul Gavin
Company Secretary	Ms Melanie Leydin
Registered office and Principal place of business	Unit A8, 2A Westall Road Clayton VIC 3168 Australia Telephone: +61 3 9002 5000 Email: info@avecho.com.au
Share register	Computershare Investor Services Pty Limited Yarra Falls, 452 Johnston Street Abbotsford VIC 3067 Australia Telephone: +61 3 9415 5000 Fax: +61 3 9473 2500
Auditor	Grant Thornton Audit Pty Ltd Collins Square Tower 5 727 Collins Street Melbourne VIC 3008
Stock exchange listing	Avecho Biotechnology Limited securities are listed on the Australian Securities Exchange. (ASX code: AVE)
Website	www.avecho.com.au

The directors present their report, together with the financial statements, on the consolidated entity consisting of Avecho Biotechnology Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled (referred to hereafter as the 'Consolidated Entity') at the end of, or during, the year ended 31 December 2021.

Directors

The following persons were directors of Avecho Biotechnology Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Dr Gregory Collier (Chairman)
Dr Ross Murdoch (Non-Executive Director)
Mr Matthew McNamara (Non-Executive Director)
Mr David Segal (Non-Executive Director, resigned on 31 May 2021)

Principal activities

Avecho Biotechnology Limited develops and commercialises innovative Human and Animal Health products using its proprietary drug delivery system called TPM® (Tocopherol Phosphate Mixture). TPM® is derived from Vitamin E using unique, proprietary and patented processes and is proven to enhance the solubility and oral, dermal and transdermal absorption of drugs and nutrients.

The Consolidated Entity's major projects include delivering TPM® enhanced injectable, oral and topical products for the human health market, including the recently announced application of TPM® to cannabinoids. The Company is also developing TPM® to enhance feed efficiency and health of livestock.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

Avecho's core business strategy is to develop and commercialise products containing its TPM® technology. Each of the business divisions, Human Health, Animal Health and Nutrition, and Production, have progressed with the common goal of advancing commercialisation of products containing the Company's TPM® technology.

Avecho remained largely unaffected internally by the ongoing COVID-19 crisis. Strict social distancing guidelines and work from home practices were implemented, and staff continued to work to advance the ongoing programs. There were delays where research studies relied on partnership or collaboration with third parties around the world, as local shutdowns for specific countries have affected ongoing laboratory practices and the ability to transport material.

The continued development of Avecho's pharmaceutical CBD soft-gel product was the main focus during the current period. The program priority was the finalisation of the CBD soft-gel composition, and the supporting chemistry, manufacturing and control (CMC) work. CMC is an integral component of a product application to the Therapeutic Goods Administration (TGA) or FDA for a pharmaceutical product and describes the work required to prove that it can be reproducibly manufactured to pharmaceutical standards with acceptable stability.

Avecho's leading prototype CBD oil formulation was adapted and refined to a soft-gel capsule in the US by Catalent (St. Petersburg, Florida). The refinements were designed to ensure the formulation was appropriate for inclusion in commercial capsule manufacturing lines and displayed appropriate physical and chemical stability. Commercially appropriate stability is critical given the Company's intention to register the finished product with the TGA.

The formulation development work was completed in May, resulting in a soft-gel capsule containing 75 mg of CBD. This 75mg unit dose was chosen to align with the TGA's down-scheduling of CBD, which has specified that future over-the-counter CBD products must have a maximum daily dose of 150 mg. A 75 mg CBD dose per soft-gel capsule could support twice daily dosing for indications benefiting from prolonged drug delivery (such as anxiety), or for the consumption of two capsules together for indications requiring a higher, single dose (for indications such as insomnia). In May, Avecho announced it would formally pursue an insomnia related indication for TGA registration of the CBD soft-gel.

Having finalized the product composition, the manufacturing campaign to produce GMP product for use in the Company's clinical trial program began. An initial pilot batch of CBD soft-gels was successfully manufactured in May 2021. This batch was used to validate the manufacturing process and analytical methods, as well as to inform the finished product specifications. Successful characterization of the prototype batch was completed, allowed formal GMP manufacture of the CBD soft-gel in August for use in a formal stability study and a Phase I PK study to characterise the CBD absorption profile from the product.

The primary objective of the study was to determine the single dose pharmacokinetics (PK) of cannabidiol absorbed from a single 75 mg and 150 mg oral dose of the CBD soft-gel. This information is required for future product registration with the TGA or FDA. The Study was conducted at CMAX in Adelaide with 16 healthy volunteers. Subjects received both doses over a period of two weeks, with each dose preceded by an overnight fast. Blood samples were collected for 48 hours after each dose and assayed for CBD content.

The CBD absorption profile and pharmacokinetic parameters of both the 75 mg and 150 mg doses were well characterised, with a linear relationship in drug absorption between the two doses. Both doses of the CBD soft-gel were well tolerated, with all adverse events characterised as mild and no adverse events of concern related to the study medication. The absorption profiles will also inform the dosing regimen to be used in subsequent clinical trials, including the pivotal efficacy program being designed for an insomnia related indication. They will also form a key piece in partnering discussions.

With the conclusion of the Phase I study, the Company had completed a thorough early phase data package to support the ongoing development and future registration of the CBD soft-gel product. This data package included formulation development and animal data; the use of high-purity, synthetic CBD; soft-gel capsule development and GMP manufacturing; ongoing stability; human trial data from the Phase I and ongoing open label CACOS study; and new IP for future patent protection. This data package was intended to support ongoing regulatory and ethics approvals, in addition to being a comprehensive data set of interest to potential licensees.

Soon after the concluding the Phase I PK study, Avecho announced its first product license and supply agreement for the CBD soft-gel, granting Medterra Pharma exclusive rights to develop and commercialise Avecho's soft-gel CBD capsule for the oral treatment of arthritis (other than in Australia and New Zealand). The Agreement signalled a strategic step forward in Avecho's ambitions to secure Food and Drug Administration approval for its soft-gel CBD product. While Avecho focuses on a sleep related indication, this Agreement allows Medterra to fund the development of the CBD soft-gel product for an additional indication, providing Avecho with potential upside for an indication the company does not have the bandwidth to pursue. Using this strategy, the Company plans to collaborate with reputable, well-resourced partners to progress our products towards regulatory approval or commercialization on a number of parallel indications.

Independent of Avecho's cannabinoid program, external licensing discussions for the non-cannabinoid programs continued throughout 2021. In May, Avecho announced that one of its potential partners in the animal health space were expanding their assessment of the utility of TPM® in livestock feeds beyond its original program analysing feed efficiency and weight gain. TPM® containing feed products are also being assessed for their ability to control post-weaning diarrhoea in pigs. Pending a positive outcome of the planned programme, Avecho's potential partner may look to bring TPM® to the animal feed market. Licensing opportunities for a number of Avecho's human health products are still under review by third parties in the pharmaceutical space and involve a range of territories.

In collaboration with this program, Avecho recently finalised a dossier for submission to the European Food Safety Authority (EFSA). EFSA's scientific evaluation process will conclude with a written assessment of the data pack that will formally articulate what additional studies EFSA may require to support the approval of feed products containing TPM®.

Avecho's manufacturing arm continued to produce and sell Vital ET® to Ashland for use in the global personal care industry, manufacturing a total of 11.3 tonnes for sale during 2021.

Review of financial results

The loss for the Consolidated Entity after providing for income tax amounted to $3,416,116 (31 December 2020: $2,634,853).

- Total revenue increased by 106% for the year to $793,600 (2020: $384,627), mainly attributable Vital ET® sales made to Ashland during the year.
- Other income increased by 47% to $1,144,568 (2020: $778,476), attributed to R&D tax incentives of $1,124,946 (2020: $360,309).
- Expenses from continuing operations increased by 39% to $5,068,621 (2020: $3,654,241), largely due to higher research and development cost of $2,134,259 (2020: $836,829).

At the end of December 2021, the Consolidated Entity held $3,264,764 in cash and cash equivalents (2020: $1,872,776). The net assets of the Consolidated Entity increased by $1,882,170 to $4,536,590 as at 31 December 2021(2020: $2,654,420). Working capital, being current assets less current liabilities, was $4,112,078 (2020: $2,087,020).

The net operating cash outflow for the year increased by $1,675,245 to $3,099,205 (2020: outflow of $1,423,960).

Significant changes in the state of affairs

On 16 February 2021, the Company has issued a total of 229,999,999 Fully Paid Ordinary Shares (Shares) at an issue price of $0.022 (2.2 cents) through a placement to institutional and sophisticated investors raising $4,765,801 net of transaction costs. On the same day, the Company issued 115,000,000 listed options, which expire on 31 December 2023, to the investors who participated in this placement. A further 7,500,000 listed options, which expire on 31 December 2023, were issued to the brokers.

On 20 November 2020, the Company issued 13,977,753 Options to Directors at an exercise price of $0.0169 (1.69 cents) per option. These options were approved by Shareholders at the 2021 Annual General Meeting of the Company held on 31 May 2021.

On 1 July 2021, the Company issued a total of 7,221,847 Fully Paid Ordinary Shares for nil consideration following the vesting of 7,221,847 unlisted Performance Rights on 1 July 2021.

On 10 September 2021, 3,750,000 unlisted options expired without exercise or conversion.

There were no other significant changes in the state of affairs of the Consolidated Entity during the financial year.

Matters subsequent to the end of the financial year

On 10 January 2022, the Company has issued 1,696,000 Fully Paid Ordinary Shares (Shares) to employees under the Company's Equity Incentive Plan.

On 2 February 2022, the Company announced it has entered into a product license and supply agreement (Agreement) with Team SAAS LLC (SAAS) granting SAAS exclusive rights to commercialise a recreational cannabis distillate containing TPM® for use in the manufacture of edible cannabis products in the US.

The Company will receive a licence fee calculated by reference to SAAS' net profits after tax. The Company will receive 50% of SAAS' net profit after tax on net sales of the product, which will be paid quarterly. SAAS must pay a minimum licence fee of US$1M within the first 12 months, US$2.5m within the first 2 years and US$5 million within the first 4 years.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Business strategy and future developments

The Company will continue to use its cash resources to invest in research and development activities and licensing activities.

The development of the Company's CBD soft-gel product will remain the priority for the coming year, with the focus on two key areas; the completion of the CMC work needed for a future TGA submission dossier, and the conduct of a pivotal efficacy study in a sleep related indication. These are the key milestones needed to compile a TGA dossier for submission. Work toward both endpoints has already begun.

The manufacturing piece is especially critical, as it now also supports the clinical programs of our current (Medterra Pharma) and future partners. The company plans to complete further licensing deals for the CBD soft-gel, allowing it to be included in multiple development programs for various clinical indications. These deals will increase the likelihood that Avecho's product will prove efficacious for one or more indications, as well as providing potential upside in therapeutic areas Avecho does not have the bandwidth to pursue on its own. It is anticipated that Avecho will be providing support to a number of partners across 2022 in order to help advance the clinical development of the CBD soft-gel product in their own indications.

Beyond the oral CBD soft-gel capsule, Avecho continues to explore further clinical applications of its formulations in partnership with reputable, independent experts. In October 2021, the Company announced a collaboration with leading Australian research group for cannabinoid therapeutics, the Lambert Initiative, at the University of Sydney to conduct a proof of concept study to examine whether topically applied CBD can provide relief from symptoms of osteoarthritis. The study has been initiated in response to growing demand from patients who are unsatisfied with their level of pain management provided by current treatments for osteoarthritis of the hand. This study is currently scheduled to begin Q1 2022 with results expected Q2. The various applications of topical CBD gels are already receiving considerable attention, and Avecho intends to have products available for future licensees.

In 2022, Avecho has already finalised a product license and supply agreement with Team SAAS, granting them exclusive rights to commercialise a recreational cannabis distillate containing TPM® for use in the manufacture of edible cannabis products in the US. The Agreement signalled a strategic step forward in Avecho's ambitions to increase the breadth of cannabis products and markets leveraging TPM formulations and provides Avecho with access to a stream of immediate revenue.

Avecho is also expecting results from both its partnered animal health program and EFSA submission in H1 2022. Both items will influence how the program moves forward with partnership in the future.

Avecho will continue to support Ashland during 2022, supplying Vital ET® for its global customers. In addition to the manufacturing of Vital-ET, Avecho will also manufacture TPM for sale to Team SAAS for inclusion in their TPM cannabis distillate. Should Team SAAS find success with their TPM cannabis distillate, it is anticipated that relatively large volumes of TPM will be manufactured on an ongoing basis in Avecho's Clayton facility.

Environmental regulation

The Company is registered with relevant authorities to use certain compounds in the manufacture of goods. All waste chemicals are disposed of using accredited service providers with notification to the relevant authorities.

The Company is not aware of any breaches of any environmental regulations.

Information on directors

Name:	Dr Gregory Collier
Title:	Non-Executive Chairman
Qualifications:	PhD
Experience and expertise:	Dr Collier has more than 20 years' experience spanning operational, clinical and scientific aspects of pharmaceutical research, development and commercialisation. Dr Collier has led the planning and execution of multiple commercial transactions including in and out licensing deals and major M&A activities, and he has successfully taken a drug from discovery through to regulatory approval. Notably, Dr Collier steered ChemGenex Pharmaceuticals Limited from a research-based Company with a market capitalisation of $10 million to a Company with completed clinical trials and regulatory dossiers submitted to the FDA and EMA. In 2011, ChemGenex was sold to Cephalon Inc. (now subsidiary of Teva Pharmaceuticals Industries Limited) for $230 million. Prior to his commercial pharmaceutical career, Dr Collier had an outstanding academic career resulting in over 150 peer reviewed publications, and senior authorship on 33 patents. Dr Collier was the inaugural Alfred Deakin Professor at Deakin University, and also held positions at Melbourne University, Monash University and the University of Toronto. In 2010, Dr Collier was awarded the Roche Award of Excellence for his contribution to the biotechnology industry.
Other current directorships:	None
Former directorships (last 3 years):	Invion Limited
Interests in shares:	2,000,000 ordinary shares
Interests in options:	5,990,465 unlisted options

Name:	Dr Ross Murdoch
Title:	Non-Executive Director
Qualifications:	PhD GAICD
Experience and expertise:	Dr Murdoch joined Avecho as CEO in January 2015 and was appointed as director in April 2015. He has almost 30 years' experience as a leader within the global healthcare, pharmaceutical and biotechnology industries. He has held senior management and executive positions in Australia, the USA and Europe, with responsibility for the strategy, development and commercialisation of products, product portfolios and the building and rebuilding of new and existing businesses. Highlights of his career include Senior Vice President at Shire Pharmaceuticals (one of the world's leading specialty pharmaceutical companies), based in the USA and Switzerland, where he founded and grew both the Emerging Products Business and Haematology Business and President and COO of Prana Biotechnology Limited based in Australia. Dr Murdoch has a BSc degree with honours from Monash University, a PhD in Clinical Pharmacology from the University of Melbourne and additional postgraduate training in Health Economics from Monash University Business School. He is also a Graduate of the Australian Institute of Company Directors.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	1,666,667 ordinary shares
Interests in options:	3,993,644 unlisted options

Name:	Mr David Segal
Title:	Non-Executive Director (resigned on 31 May 2021)
Qualifications:	B.Com B.Law
Experience and expertise:	Mr Segal was the Investor Relations Manager at Phosphagenics from 2011 to 2015. Prior to this Mr Segal worked for over 30 years in stockbroking, including setting up, raising capital for and running Trent Securities which was absorbed into Shaw Stockbroking in 1992. Mr Segal has been a shareholder of Phosphagenics since 1999. Mr Segal has a law/commerce degree from Melbourne University and is a graduate of the Australian Institute of Company Directors.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	18,491,281 ordinary shares (at the time of resignation on 31 May 2021)
Interests in options:	Nil

Name:	Matthew McNamara
Title:	Non-Executive Director
Qualifications:	BSc (Hons), MBA
Experience and expertise:	Mr McNamara joined the Board in January 2020. He has over 30 years' experience in the healthcare and medical sciences sector. In 2003, he founded BioBridge Australia, a biotechnology commercialisation advisory company and advised a number of public biotechnology / investment companies. He is presently a director of Adherium Ltd (ASX:ADR), SciCapital Pty Ltd, Microbio Pty Ltd, ESN Cleer Pty Ltd and Grey Innovation Group Pty Ltd. He has held previous directorship in Avita Medical Ltd, Bioxyne Ltd, and Saluda Medical Pty Ltd. Mr McNamara has also served as CIO of BioScience Managers Pty Ltd, was CEO of SciCapital Pty Ltd, a Life Sciences Venture Capital fund, SVP Business Development for eBioinformatics Inc, General Manager of Vistakon Pty Ltd (a Johnson & Johnson Medical franchise), and held numerous management positions in Australia with Merck & Co.
Other current directorships:	Adherium Ltd (ASX: ADR)
Former directorships (last 3 years):	None
Interests in shares:	None
Interests in options:	3,993,644 unlisted options (indirect)

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary
Melanie Leydin - BBus (Acc. Corp Law) CA FGIA

Ms Leydin holds a Bachelor of Business majoring in Accounting and Corporate Law. Ms Leydin is a member of the Institute of Chartered Accountants, Fellow of the Governance Institute of Australia and is a Registered Company Auditor. Ms Leydin graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and from February 2000 to October 2021 was the principal of Leydin Freyer. In November 2021 Vistra acquired Leydin Freyer and, Ms Leydin is now Vistra Australia's Managing Director. Vistra is a prominent provider of specialised consulting and administrative services to clients in the Fund, Corporate, Capital Markets, and Private Wealth sectors.

Ms Leydin has over 25 years' experience in the accounting profession and over 15 years' experience holding Board positions including Company Secretary of ASX listed entities. Ms Leydin has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of Companies, initial public offerings, secondary raisings and shareholder relations.

Meetings of directors
The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 December 2021, and the number of meetings attended by each director were:

	Full Board	
	Held	**Attended**
Gregory Collier	8	8
Ross Murdoch	8	8
David Segal	5	5
Matthew McNamara	8	8

Held: represents the number of meetings held during the time the director held office.

The full Board assumes the responsibility of the Remuneration Committee and Audit Committee.

Retirement, election and continuation in office of directors
Mr David Segal, Non-Executive Director, resigned from the Company's Board on 31 May 2021.

Remuneration report (audited)
The remuneration report details the key management personnel remuneration arrangements for the Consolidated Entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Relationship between remuneration and the Group's performance
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Consolidated Entity's executive remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitive and reasonable, enabling the Company to attract and retain key talent
- Aligned to the Company’s strategic and business objectives and creation of shareholder value
- Transparent and easily understood; and
- Acceptable to shareholders

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Consolidated Entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

Executive remuneration

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Consolidated Entity.

The executive remuneration framework has three components:

- Base pay and benefits
- Short-term incentives
- Long-term incentives through participation in Avecho Equity Incentive Plan (EIP)

A combination of these components comprises an executive’s total remuneration, with base pay and benefits at an appropriate level to competitive market benchmarks.

Base pay and benefits

Executives receive their base pay and benefits structured as a Total Remuneration Package (TRP) which may be delivered as a combination of cash and prescribed non-financial benefits at the executive’s discretion. Superannuation is included in the TRP.

Eligible employees can receive cash bonus based on a percentage of their fixed base salary should they meet expected KPIs. Executives including CEO and COO are eligible to receive up to 20% of their fixed base salary as a bonus. Executive bonus is set to be paid on an annual basis as 50% cash and 50% in terms of fully paid ordinary shares.

Bonus outcomes are discretionary and are based on performance criteria outlined in their respective contracts, the overall health of the business and other factors which may arise. The Board approves the total bonus pool, the corporate component as well as the total awarded to each KMP.

Long term incentives

On 13 July 2020, the shareholders approved the Equity Incentive Plan during 2020 Annual General Meeting. The Plan would enable eligible directors, officers, employees and contractors (including Executive and Non-Executive directors, officers, employees and contractors of the Company’s subsidiaries) to receive shares, options to acquire shares in the Company, other securities, or rights or interests such as performance rights.

No directors or their associates can or will be issued shares, options or other securities or rights under the Plan unless shareholder approval of specific issues to them is obtained. Under the Plan the Company may acquire shares on market to be held on trust for directors or their associates.

The Company can issue up to 157 million equity securities (shares, options or other rights including performance rights each conditionally entitling the applicable holder to one fully paid ordinary shares upon exercise or achievement of the applicable milestone). This number includes 78 million equity securities which the Company may issue to senior executives who are not directors of the Company. Any additional issues under the Plan above that number would require further shareholder approval, unless the total number of securities issued does not exceed 5% of the then issued shares of the Company.

The objectives of the Plan are to:

- provide eligible employees with an additional incentive to work to improve the performance of the Company;
- attract and retain eligible employees essential for the continued growth and development of the Company;
- promote and foster loyalty and support amongst eligible employees for the benefit of the Company;
- enhance the relationship between the Company and eligible employees for the long-term mutual benefit of all parties; and
- provide eligible employees with the opportunity to acquire shares, options or rights in the Company, in accordance with the Plan.

As at 31 December 2021, the Company issued nil performance rights (2020: 7,221,847) and 97,844,268 unlisted options (2020: 87,616,515) under the Plan.

Non-executive remuneration

The Company's remuneration strategy for non-executive directors is to remunerate them appropriately for their time and expertise, which has been determined to involve a combination of fixed fees and a non-performance based equity component. All non-executive directors receive a fixed fee.

	2021 $	**2020 $**
Chairman	100,000	109,500
Non-Executive Director	55,000	55,000

Fees are determined within an aggregate non-executive director's pool limit approved by shareholders. The aggregate currently stands at $400,000 and was approved by shareholders at 2014 Annual General Meeting. This amount, or part thereof, is divided among non-executive directors as determined by the Board and reflecting time and responsibility related to the Board and committees. The aggregate fees paid to non-executive directors was $236,334 (2020: $291,156). Directors' fees include statutory superannuation contributions as required under Australian superannuation guarantee legislation.

Non-executive director's fees are reviewed annually by the Board and there have been no changes to fees in either 2020 or 2021.

Other than statutory superannuation, Non-Executive Directors do not receive other retirement benefits, nor do they participate in any short-term incentive programs. Non-executive directors are entitled to participate in the long-term incentive scheme as detailed in the Executive remuneration section.

Use of remuneration consultants
If remuneration consultants are to be engaged to provide remuneration recommendations as defined in section 9B of the Corporations Act 2001, then they are engaged by, and report directly to, the Board. No remuneration consultants were engaged to provide remuneration services during the financial year.

Voting and comments made at the company's 2021 Annual General Meeting ('AGM')
At the Company's AGM held on 31 May 2021, 93.99% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2020. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration
The key management personnel of the Consolidated Entity consisted of the following directors and executives of Avecho Biotechnology Limited:
- Gregory Collier (Chairman)
- Ross Murdoch (Non-Executive Director)
- David Segal (Non-Executive Director, resigned 31 May 2021)
- Matthew McNamara (Non-Executive Director)

Other key management personnel:
- Paul Gavin (Chief Executive Officer)
- Roksan Libinaki (Chief Operating Officer)

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments Options	
31 December 2021	**Cash salary and fees $**	**Annual leave* $**	**Cash bonus $**	**Super-annuation $**	**Long service leave* $**	**and ordinary shares $**	**Total $**
Directors:							
Gregory Collier	100,000	-	-	3,167	-	64,868	168,035
Ross Murdoch	50,114	-	-	4,886	-	43,245	98,245
Matthew McNamara	50,114	-	-	4,886	-	43,245	98,245
David Segal	20,928	-	-	1,988	-	(11,463)	11,453
Chief Executive Officer							
Paul Gavin**	227,000	2,635	20,430	22,133	4,507	200,568	477,273
Other Key Management Personnel:							
Roksan Libinaki***	200,000	8,069	18,180	19,500	3,996	105,294	355,039
	648,156	10,704	38,610	56,560	8,503	445,757	1,208,290

* Annual leave and long service leave amounts represent the movements in the accrued leave payable balances compared to the previous financial year.

** Dr Gavin received a cash bonus of $20,430 for achieving 2021 key performance indicators. In addition, Dr Gavin was granted 908,000 fully paid ordinary shares valued at $13,620 under the Company's Equity Incentive Plan, which are included as part of share based payments. Dr Gavin is entitled to up to 20% of base salary in short term incentives. The Company issued these fully paid ordinary shares on 10 January 2022.

*** Dr Libinaki received a cash bonus of $18,180 for achieving 2021 key performance indicators. In addition, Dr Libinaki was granted 788,000 fully paid ordinary shares valued at $11,820 under the Company's Equity Incentive Plan, which are included as part of share based payments. Dr Libinaki is entitled to up to 20% of base salary in short term incentives. The Company issued these fully paid ordinary shares on 10 January 2022.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments Options	
31 December 2020	**Cash salary and fees $**	**Annual leave* $**	**Cash bonus $**	**Super-annuation $**	**Long service leave* $**	**and ordinary shares $**	**Total $**
Directors:							
Gregory Collier	116,667	-	-	11,083	-	17,194	144,944
Ross Murdoch	50,228	-	-	4,772	-	11,463	66,463
Matthew McNamara	48,773	-	-	4,633	-	11,463	64,869
David Segal	50,228	-	-	4,772	-	11,463	66,463
Chief Executive Officer							
Paul Gavin**	231,216	13,216	13,500	20,710	13,892	204,686	497,220
Other Key Management Personnel:							
Roksan Libinaki***	200,140	9,140	12,600	18,145	17,378	137,680	395,083
	697,252	22,356	26,100	64,115	31,270	393,949	1,235,042

* Annual leave and long service leave amounts represent the movements in the accrued leave payable balances compared to the previous financial year. 2020 remuneration table has been updated to reflect the annual leave balance movement, to be consistent with current year presentation.

** Dr Gavin received a cash bonus of $13,500 and 760,508 fully paid ordinary shares valued at $13,689 for achieving 2020 key performance indicators in his CEO contract. Dr Gavin also received 10,000,000 fully paid ordinary shares valued at $60,000 as a sign-on bonus when he became the CEO on 1 May 2020.

*** Dr Libinaki received a cash bonus of $12,600 and 676,752 fully paid ordinary shares valued at $12,181 for achieving 2020 key performance indicators in her COO contract. Dr Libinaki also received 10,000,000 fully paid ordinary shares valued at $60,000 as a sign-on bonus when she became the COO on 1 May 2020.

Service agreements

Remuneration and other terms of employment for the executives are formalised in service agreements which include a position description that sets out duties, rights and responsibilities as well as entitlements on termination. All service agreements include provision that the Company can dismiss the employee at any time without notice if the employee is guilty of serious misconduct, becomes unable to pay debts or is found guilty by court of a criminal offence.

The entitlement to participate in Avecho Employee Incentive Plan is governed by the Equity Incentive Plan Rules and may not be specifically detailed in the service agreement.

Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause, any unvested options or rights will immediately be forfeited.

Name (Title)	Term of agreement and notice period	Base salary including superannuation*	Termination payments**
Paul Gavin (Chief Executive Officer)	No fixed term and a notice period of 6 months	$249,700	6 months
Roksan Libinaki (Chief Operating Officer)	No fixed term and a notice period of 3 months	$220,000	3 months

* Base salary quoted as at 31 December 2021, reviewed annually by the Board.

** Base salary payable if the Company terminates employee with notice and without cause.

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2021 are set out below:

Name	Date	Shares*	Issue price
Paul Gavin	10 January 2022	908,000	$0.015
Roksan Libinaki	10 January 2022	788,000	$0.015

* These Shares were granted under the Company's Equity Incentive Plan for achieving 2021 key performance indicators and the Shares were issued on 10 January 2022.

Options
The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of Options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Paul Gavin	9,984,109	20-Nov-20	20-Nov-20	20-May-24	$0.017	$0.011
Paul Gavin	9,984,109	20-Nov-20	20-Nov-21	20-May-24	$0.017	$0.011
Paul Gavin	9,984,109	20-Nov-20	20-Nov-22	20-May-24	$0.017	$0.011
Paul Gavin	9,984,109	20-Nov-20	20-Nov-23	20-May-24	$0.017	$0.011
Roksan Libinaki	4,992,054	20-Nov-20	20-Nov-20	20-May-24	$0.017	$0.011
Roksan Libinaki	4,992,054	20-Nov-20	20-Nov-21	20-May-24	$0.017	$0.011
Roksan Libinaki	4,992,055	20-Nov-20	20-Nov-22	20-May-24	$0.017	$0.011
Roksan Libinaki	4,992,055	20-Nov-20	20-Nov-23	20-May-24	$0.017	$0.011
Gregory Collier	1,497,616	31-May-21	31-May-21	29-Nov-24	$0.017	$0.020
Gregory Collier	1,497,616	31-May-21	31-May-22	29-Nov-24	$0.017	$0.020
Gregory Collier	1,497,616	31-May-21	31-May-23	29-Nov-24	$0.017	$0.020
Gregory Collier	1,497,617	31-May-21	31-May-24	29-Nov-24	$0.017	$0.020
Ross Murdoch	998,411	31-May-21	31-May-21	29-Nov-24	$0.017	$0.020
Ross Murdoch	998,411	31-May-21	31-May-22	29-Nov-24	$0.017	$0.020
Ross Murdoch	998,411	31-May-21	31-May-23	29-Nov-24	$0.017	$0.020
Ross Murdoch	998,411	31-May-21	31-May-24	29-Nov-24	$0.017	$0.020
Matthew McNamara	998,411	31-May-21	31-May-21	29-Nov-24	$0.017	$0.020
Matthew McNamara	998,411	31-May-21	31-May-22	29-Nov-24	$0.017	$0.020
Matthew McNamara	998,411	31-May-21	31-May-23	29-Nov-24	$0.017	$0.020
Matthew McNamara	998,411	31-May-21	31-May-24	29-Nov-24	$0.017	$0.020

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 31 December 2021 are set out below:

Name	Number of options granted during the year 31 December 2021	Number of options granted during the year 31 December 2020	Number of options vested during the year 31 December 2021	Number of options vested during the year 31 December 2020
Gregory Collier	5,990,465	-	1,497,616	-
Matthew McNamara	3,993,644	-	998,411	-
Ross Murdoch	3,993,644	-	998,411	-
Paul Gavin	-	39,936,436	9,984,109	-
Roksan Libinaki	-	19,968,218	4,992,054	-

Performance rights
There were no performance rights over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 31 December 2021 (2020: Nil).

Relationship between remuneration and the Group's performance
Typical of companies in the biotech sector at the Company's stage of development, performance metrics, such as total revenues or profitability, are not an appropriate measure of executive performance. The following table shows the Company's total revenues over the five-year period from 2017 to 2021.

	2021 $	2020 $	2019 $	2018 $	2017 $
Total revenue from continuing operations	793,600	384,627	4,238,113	1,394,275	1,150,356
Loss from continuing operations	(3,416,116)	(2,634,853)	849,955	(3,991,020)	(8,618,028)

The main focus is on growth in shareholder value through achievement of development and commercial milestones. The Board, however, recognises that share price performance is relevant and has linked share price performance to the vesting of executive long term equity incentives.

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2021	2020	2019	2018	2017
Share price at financial year end (cents)	1.50	2.90	0.40	0.50	1.80
Basic earnings per share (cents per share)	(0.19)	(0.17)	0.05	(0.25)	(0.66)
Diluted earnings per share (cents per share)	(0.19)	(0.17)	0.05	(0.25)	(0.66)

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Consolidated Entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Other*	Balance at the end of the year
Ordinary shares					
Gregory Collier	2,000,000	-	-	-	2,000,000
Ross Murdoch	1,666,667	-	-	-	1,666,667
David Segal*	18,491,281	-	-	(18,491,281)	-
Paul Gavin	10,859,508	-	-	-	10,859,508
Roksan Libinaki	11,100,441	-	-	-	11,100,441
	44,117,897	-	-	(18,491,281)	25,626,616

* Mr Segal has resigned as Non-Executive Director on 31 May 2021.

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Consolidated Entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired**	Balance at the end of the year
Options over ordinary shares					
Gregory Collier	2,250,000	5,990,465	-	(2,250,000)	5,990,465
Matthew McNamara	-	3,993,644	-	-	3,993,644
Ross Murdoch	-	3,993,644	-	-	3,993,644
David Segal *	1,500,000	-	-	(1,500,000)	-
Paul Gavin	39,936,436	-	-	-	39,936,436
Roksan Libinaki	19,968,218	-	-	-	19,968,218
	63,654,654	13,977,753	-	(3,750,000)	73,882,407

* Mr Segal has resigned as Non-Executive Director on 31 May 2021.
** 3,750,000 options expired on 10 September 2021, without exercise or conversion.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Avecho Biotechnology Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
20 November 2020	20 May 2024	$0.017	83,866,515
16 February 2021	31 December 2023	$0.035	122,500,000
31 May 2021	29 November 2024	$0.017	13,977,753
			220,344,268

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options and performance rights

The following ordinary shares of Avecho Biotechnology Limited were issued during the year ended 31 December 2021 and up to the date of this report on the exercise of performance rights granted:

Date performance rights granted	Exercise price	Number of shares issued
18 August 2020	$0.000	7,221,847

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has agreed to indemnify its auditors, Grant Thornton Audit Pty Ltd, to the extent permitted by law, against any claim by a third party arising from the company's breach of their agreement, The indemnity stipulates that the company will meet the full amount of any such liabilities including a reasonable amount of legal costs.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 22 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Grant Thornton Audit Pty Ltd

There are no officers of the Company who are former partners of Grant Thornton Audit Pty Ltd.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Dr Gregory Collier
Chairman

25 February 2022

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Auditor's Independence Declaration

To the Directors of Avecho Biotechnology Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Avecho Biotechnology Limited for the year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Cunningham
Partner – Audit & Assurance

Melbourne, 25 February 2022

Avecho Biotechnology Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2021

	Note	Consolidated 31 December 2021 $	Consolidated 31 December 2020 $
Revenue from contracts with customers	4	793,600	384,627
Cost of sales		(285,663)	(143,715)
Gross profit		507,937	240,912
Research and development tax incentive and other income	5	1,144,568	778,476
Research and development expenses	6	(2,134,259)	(836,829)
Administration and corporate expenses	7	(2,924,387)	(2,811,487)
Finance costs		(9,975)	(5,925)
Loss before income tax expense		(3,416,116)	(2,634,853)
Income tax expense	8	-	-
Loss after income tax expense for the year attributable to the owners of Avecho Biotechnology Limited		(3,416,116)	(2,634,853)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Avecho Biotechnology Limited		(3,416,116)	(2,634,853)
		Cents	**Cents**
Basic earnings per share	30	(0.19)	(0.17)
Diluted earnings per share	30	(0.19)	(0.17)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

	Note	Consolidated 31 December 2021 $	Consolidated 31 December 2020 $
Assets			
Current assets			
Cash and cash equivalents	9	3,264,764	1,872,776
Trade and other receivables	10	1,126,994	479,115
Inventories	11	196,732	100,006
Prepayments		219,244	238,704
Total current assets		4,807,734	2,690,601
Non-current assets			
Plant and equipment	12	247,327	67,912
Right-of-use assets	13	88,888	165,076
Intangibles	14	102,000	431,000
Total non-current assets		438,215	663,988
Total assets		5,245,949	3,354,589
Liabilities			
Current liabilities			
Trade and other payables	15	275,134	241,192
Lease liabilities		80,211	73,031
Provisions	16	340,311	289,358
Total current liabilities		695,656	603,581
Non-current liabilities			
Lease liabilities		13,703	93,200
Provisions	17	-	3,388
Total non-current liabilities		13,703	96,588
Total liabilities		709,359	700,169
Net assets		4,536,590	2,654,420
Equity			
Issued capital	18	237,601,871	232,778,295
Reserves	19	29,001,981	28,537,271
Accumulated losses		(262,067,262)	(258,661,146)
Total equity		4,536,590	2,654,420

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 January 2020	232,632,424	28,152,820	(256,026,293)	4,758,951
Loss after income tax expense for the year	-	-	(2,634,853)	(2,634,853)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,634,853)	(2,634,853)
Transactions with owners in their capacity as owners:				
Share-based payments (note 31)	-	384,451	-	384,451
Issue of share as sign-on bonus	120,000	-	-	120,000
Issue of shares as part of short term incentive plan	25,871	-	-	25,871
Balance at 31 December 2020	232,778,295	28,537,271	(258,661,146)	2,654,420

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 January 2021	232,778,295	28,537,271	(258,661,146)	2,654,420
Loss after income tax expense for the year	-	-	(3,416,116)	(3,416,116)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(3,416,116)	(3,416,116)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 18)	4,765,801	-	-	4,765,801
Share-based payments (note 31)	-	532,485	-	532,485
Issue of shares on exercise of performance rights	57,775	(57,775)	-	-
Share options lapsed	-	(10,000)	10,000	-
Balance at 31 December 2021	237,601,871	29,001,981	(262,067,262)	4,536,590

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

	Note	Consolidated 31 December 2021 $	31 December 2020 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		787,560	390,032
Receipt of government grants and subsidy		515,741	779,596
Other receipts		-	65,750
Payments to suppliers and employees (inclusive of GST)		(4,395,714)	(2,653,413)
Finance costs paid		(6,792)	(5,925)
Net cash used in operating activities	29	(3,099,205)	(1,423,960)
Cash flows from investing activities			
Interest received		531	793
Payments for plant and equipment	12	(202,821)	(5,150)
Net cash used in investing activities		(202,290)	(4,357)
Cash flows from financing activities			
Proceeds from issue of shares	18	5,060,001	-
Cost of issue of shares		(294,200)	-
Payment of principal element of lease liabilities		(72,318)	(82,503)
Net cash from / (used in) financing activities		4,693,483	(82,503)
Net increase / (decrease) in cash and cash equivalents		1,391,988	(1,510,820)
Cash and cash equivalents at the beginning of the financial year		1,872,776	3,210,540
Effects of exchange rate changes on cash and cash equivalents		-	173,056
Cash and cash equivalents at the end of the financial year	9	3,264,764	1,872,776

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

This report is to be read in conjunction with any public announcements made by Avecho Biotechnology Limited during the reporting period in accordance with continuous disclosure requirements of the Corporations Act 2001 and the Australian Securities Exchange Listing Rules.

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated. Comparative information are updated where it is relevant to an understanding of the current year's financial statements.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Avecho Biotechnology Limited ('Company' or 'parent entity') as at 31 December 2021 and the results of all subsidiaries for the year then ended. Avecho Biotechnology Limited and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

Subsidiaries are all those entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated Entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Consolidated Entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Consolidated Entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Consolidated Entity only. Supplementary information about the parent entity is disclosed in note 26.

Note 1. Significant accounting policies (continued)

Going concern
The 2021 annual report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realization of assets and the settlement of liabilities in the ordinary course of business.

The working capital position as at 31 December 2021 of the Consolidated Entity was a surplus of $ 4,098,375 (2020: surplus of $2,087,020). The Consolidated Entity made a loss after tax of $3,416,116 (2020: $2,634,853). The net operating cash outflow was $3,099,205 (2020: $1,423,960). Cash and cash equivalents as at 31 December 2021 were $3,264,764 (2020: $1,872,776). The continuing viability of the Consolidated Entity and its ability to continue as a going concern is dependent upon the Consolidated Entity being successful in its continuing efforts in R&D activities, potential licensing on existing products and accessing additional sources of capital to meet the commitments.

In considering the ability of the Consolidated Entity to continue as a going concern the Directors considered the following matters:

- the Consolidated Entity has the ability to raise additional working capital through the issue of equity, as needed;
- the Consolidated Entity has a successful history in raising funds and is well supported by its major shareholders;
- the Consolidated Entity have a successful history of
  - being eligible for Research and Development (R&D) tax incentives and various other government grants
  - licensing existing patented products
  - selling TPM® and Vital ET® products to Ashland and Themis; and
- other avenues that may be available to the Consolidated Entity.

The Directors will continue to monitor the ongoing funding requirements of the Consolidated Entity. As a consequence of the above, the directors believe that, notwithstanding the Consolidated Entity's operating results for the year, the Consolidated Entity will be able to continue as a going concern and therefore, these financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

Having assessed the potential uncertainties relating to the Consolidated Entity's ability to effectively fund research and operating expenditures, the Directors believe that the Consolidated Entity will continue to operate as a going concern for the foreseeable future. Therefore, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Foreign currency translation
Items included in the financial statements of each of the Consolidated Entity's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Avecho Biotechnology Limited's functional and presentation currency.

Foreign currency transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

Note 1. Significant accounting policies (continued)

Group companies
The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Leases
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Consolidated Entity as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Impairment of assets
Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Note 1. Significant accounting policies (continued)

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Consolidated Entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Consolidated Entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas of assumptions and estimates are:

R&D Tax Incentives
From 1 July 2011 the Australian Government has provided a tax incentive, in the form of a refundable tax offset of 43.5%, for eligible research and development expenditure. Management has assessed its research and development activities and expenditure to determine which are likely to be eligible under the scheme. For the period ended 31 December 2021 the Consolidated Entity has recorded an item in other income of $1,124,946 (2020: $360,309) to recognise this amount which relates to this period.

Coronavirus (COVID-19) pandemic
Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Consolidated Entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Consolidated Entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Consolidated Entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Share-based payment transactions
The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the binomial and Black-Scholes methods taking into account the terms and conditions upon which the instruments were granted, as discussed in note 31. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Employee benefits provision
Liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 3. Operating segments

Identification of reportable operating segments
The operating segments are identified by management based on the Consolidated Entity’s risks and returns that are affected predominantly by differences in the products and services provided. The reportable segments are based on aggregated operating segments determined according to the nature of the products and services provided, with each reportable segment representing a strategic business unit that offers different products and serves different markets.

Note 3. Operating segments (continued)

Production
Production portfolio manufactures and sells TPM® and Vital ET® for the use in drug delivery and cosmetic formulations.

Human Health
The Consolidated Entity's Human Health portfolio covers delivery of pharmaceutical products through gels, injectables and patches.

The division continues to prioritise development work on the two existing opioid patch assets: TPM®/Oxymorphone and TPM®/Oxycodone as well as continues to assess commercial opportunities for TPM® enhanced products delivered as injectables.

In late 2020, the Consolidated Entity commenced testing the performance of its enhanced oral cannabidiol (CBD) TPM® formulation in human patients being prescribed medicinal cannabis for a range of indications. Towards the end of 2021 financial year, the Company completed a major milestone in the development of its proprietary CBD soft-gel capsule, with the completion of its Phase I clinical trial (Study).

In December 2021, the Consolidated Entity entered into its first license and supply agreement for its CBD soft-gel product with Medterra Pharma. Medterra is one of the most successful CBD companies in the United States, known for developing and selling science-backed products in the consumer space. Its business development activities are now shifting to emerging opportunities in the pharmaceutical space, with the launch of Medterra Pharma.

The Consolidated Entity is currently engaged in a number of further partnering discussions, with additional outreach planned in 2022 now that Phase I trial results are available. In addition, The Phase IIa Study (PIIa Study) is scheduled to commence by mid-2022 in response to growing demand from patients who are unsatisfied with their level of pain management provided by current treatments for osteoarthritis of the hand.

All other segments
The Animal Health and Nutrition segment did not meet materiality levels and is included under along with Corporate, which predominantly a cost centre.

Operating segment information

Consolidated - 31 December 2021	**Production $**	**Human Health $**	**Corporate and other segments $**	**Total $**
Sales, Licences and Royalties	786,100	7,500	-	793,600
Cost of sales	(285,663)	-	-	(285,663)
Interest income	-	-	531	531
Research and development tax incentive and other income	-	1,114,031	10,915	1,124,946
Depreciation and amortisation	(329,000)	-	(99,594)	(428,594)
Employee and directors benefit expense	(56,474)	(606,304)	(1,111,983)	(1,774,761)
Research expenses	-	(1,537,817)	(11,971)	(1,549,788)
Other operating expenses from continuing operations	(171,120)	-	(1,125,267)	(1,296,387)
Loss before income tax expense	(56,157)	(1,022,590)	(2,337,369)	(3,416,116)
Income tax expense				-
Loss after income tax expense				(3,416,116)
Assets				
Segment assets	1,066,863	1,017,120	3,161,966	5,245,949
Total assets				5,245,949
Liabilities				
Segment liabilities	31,369	10,200	667,790	709,359
Total liabilities				709,359

Note 3. Operating segments (continued)

Consolidated - 31 December 2020	Production $	Human Health $	Corporate and other segments $	Total $
Sales, Licences and Royalties	327,985	56,642	-	384,627
Other income	4,157	33,993	194,908	233,058
Interest income	-	-	792	792
Research and development tax incentive and other income	-	360,309	184,317	544,626
Depreciation and amortisation	(426,000)	-	(110,629)	(536,629)
Employee and directors benefit expense	(100,125)	(505,693)	(1,112,951)	(1,718,769)
Research expenses	(45,619)	(124,415)	(17,566)	(187,600)
Other operating expenses from continuing operations	(130,865)	(76,451)	(1,147,642)	(1,354,958)
Loss before income tax expense	(370,467)	(255,615)	(2,008,771)	(2,634,853)
Income tax expense				-
Loss after income tax expense				(2,634,853)
Assets				
Segment assets	531,006	-	2,823,583	3,354,589
Total assets				3,354,589
Liabilities				
Segment liabilities	-	-	700,169	700,169
Total liabilities				700,169

Understanding segment results

Revenues from external customers comes from the sale of TPM® and Vital ET® products on a wholesale basis as well as royalties and licences. Revenues of approximately $672,258 are derived from a single external customer group (2020: $327,985). These revenues are attributed to the Production segment.

The Consolidated Entity is domiciled in Australia. The amount of its revenue from external customers broken down by location of customers is shown below.

Geographical information

	Sales, Licences and Royalties		Geographical non-current assets	
	31 December 2021 $	31 December 2020 $	31 December 2021 $	31 December 2020 $
Australia	96,299	4,100	438,215	663,988
Switzerland	583,459	323,885	-	-
India	113,842	56,642	-	-
	793,600	384,627	438,215	663,988

The geographical non-current assets above are measured in the same way as on the financial statements. These assets are allocated based on the operations of the segments and physical location of assets.

Accounting policy for operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 4. Revenue from contracts with customers

	Consolidated	
	31 December 2021 $	31 December 2020 $
From continuing operations		
Sale of goods and services transferred at a point in time	743,258	365,235
Royalties and licence revenue recognised over time	50,342	19,392
Total revenue from contracts with customers	793,600	384,627

Accounting policy for revenue from contracts with customers

Revenue arises mainly from manufacturing and sale of Vital ET® and TPM®, royalties and associated licence fees. To determine whether to recognise revenue, the Consolidated Entity follows a 5-step process:

1 Identifying the contract with a customer
2 Identifying the performance obligations
3 Determining the transaction price
4 Allocating the transaction price to the performance obligations
5 Recognising revenue when/as performance obligations are satisfied.

Revenue is recognised either at a point in time or over time, when the Consolidated Entity satisfies performance obligations by transferring the promised goods or services to its customers.

The Consolidated Entity recognises contract liabilities for consideration received in respect to unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Consolidated Entity satisfies a performance obligation before it receives the consideration, the Consolidated Entity recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Sale of Vital ET® and TPM®
Revenue from sale of Vital ET® and TPM® for a fixed fee per kilogram is recognised when or as the Consolidated Entity transfers control of the assets to the customer. For sale of Vital ET®, invoices are due upon 45 days of invoice date. For sale of TPM®, a 50% down payment invoice is raised and paid, prior to completion of customer order. The remaining 50% invoice amount is issued on delivery. In both cases, revenue is recognised at a point in time when the goods are freight on board.

Royalty revenue
The Consolidated Entity entered into contract with customer where a royalty revenue is payable quarterly based on their product sales. There is minimum royalty to be paid for each year. Revenue is recognised only when the later of the following events occurs:

- the subsequent sales from customers occurs; or
- the performance obligation to which some or all the sales-based royalty has been allocated has been satisfied (or partially satisfied).

Note 5. Research and development tax incentive and other income

	Consolidated	
	31 December 2021 $	31 December 2020 $
Net foreign exchange gain	19,091	173,058
Research and development tax incentive	1,124,946	360,309
COVID-19-related government grants	-	120,245
Export Market Development Grants (EMDG)	-	64,072
Project income	-	57,500
Other	-	2,500
Interest income	531	792
Research and development tax incentive and other income	1,144,568	778,476

Research and development tax incentive
Research and Development tax incentives are recognised in accordance with AASB 120: Accounting for Government Grants and Government Assistance. The Research and development tax credit is recognised when there is reasonable assurance that the grant will be received and all conditions have been complied with. The grant has been recognised as other income within the period.

COVID-19-related government grants
COVID-19-related government grants represent the job keeper, cash flow boost payments and other grants received from State and Federal Governments in response to novel coronavirus (COVID-19) pandemic. Government grants are recognised in the financial statements at expected values or actual cash received when there is a reasonable assurance that the Consolidated Entity will comply with the requirements and that the grant will be received.

Accounting policy for government grants
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Consolidated Entity will comply with all attached conditions. Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Accounting policy for interest income
Interest income is recognised on a time proportion basis using the effective interest rate method. All revenue is stated net of the amount of Goods and Services Tax (GST).

Note 6. Research and development expenses

	Consolidated	
	31 December 2021 $	31 December 2020 $
Clinical development, consultancy and laboratory consumables	1,549,788	309,285
Employment expenses associated with research and development	584,471	527,544
	2,134,259	836,829

Note 7. Administration and corporate expenses

	Consolidated 31 December 2021 $	31 December 2020 $
Director fees	319,166	295,718
Share based payments expenses (note 31)	557,925	530,322
Salaries and other employee expenses (non - R&D)	313,199	366,403
Insurance	277,064	154,738
Shareholder and listing expenses	191,272	88,919
Patent portfolio expenses	222,597	297,309
Occupancy expenses	97,030	67,945
Allowance for credit losses and uncollectable debtors written-off	49,341	388
Professional and consultancy fees	435,820	414,366
Depreciation of right-of-use assets and plant and equipment	99,594	110,629
Amortisation of intangible assets	329,000	426,000
Other sundry expenses	32,379	58,750
	2,924,387	2,811,487

Note 8. Income tax

	Consolidated 31 December 2021 $	31 December 2020 $
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(3,416,116)	(2,634,853)
Tax at the statutory tax rate of 26% (2020: 27.5%)	(888,190)	(724,585)
Tax effect amounts which are not deductible / (taxable) in calculating taxable income:		
Entertainment expenses	-	690
Share-based payments	145,061	145,839
Non-assessable income - Cashflow boost	-	(27,500)
Non-assessable income - R&D incentive	(292,486)	(108,881)
	(1,035,615)	(714,437)
Unused tax losses and tax offsets not recognised as deferred tax assets	1,035,615	714,437
Income tax expense	-	-

	Consolidated 31 December 2021 $	31 December 2020 $
Deferred tax assets not recognised		
The following items have not been brought to account as deferred tax assets:		
Tax losses not recognised at current tax rate of 26% (2020: 27.5%)	46,267,280	45,562,808
Total deferred tax assets not recognised	46,267,280	45,562,808

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

Note 8. Income tax (continued)

Tax Losses

Deferred tax assets have not been recognised in respect of carried forward tax losses.

Tax consolidation

(i) Members of the tax consolidated group and the tax sharing arrangement

Avecho Biotechnology Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2009. Avecho Biotechnology Limited is the head entity of the tax consolidated group.

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Consolidated Entity has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes.

Accounting policy for income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Note 8. Income tax (continued)

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Avecho Biotechnology Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Note 9. Current assets - cash and cash equivalents

	Consolidated	
	31 December 2021 $	31 December 2020 $
Cash at bank	3,179,034	1,787,046
Short term deposits	85,730	85,730
	3,264,764	1,872,776

Accounting policy for cash and cash equivalents
For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Note 10. Current assets - trade and other receivables

	Consolidated	
	31 December 2021 $	31 December 2020 $
Trade receivables	63,567	37,189
Less: Allowance for expected credit losses	(23,887)	-
	39,680	37,189
R&D tax incentive credit receivable	1,028,035	418,830
Other receivables	59,279	23,096
	1,087,314	441,926
	1,126,994	479,115

Allowance for expected credit losses
An allowance for expected credit loss is recognised when there is objective evidence that the Consolidated Entity may not be able to collect all the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectable. At 31 December 2021, the Consolidated Entity recognised an allowance of $23,887 for expected losses (2020: Nil). In addition, debts totalling $25,454 were written off in 2021 financial year (2020: $388).

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Note 10. Current assets - trade and other receivables (continued)

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Consolidated	Expected credit loss rate 31 December 2021 %	Expected credit loss rate 31 December 2020 %	Carrying amount 31 December 2021 $	Carrying amount 31 December 2020 $	Allowance for expected credit losses 31 December 2021 $	Allowance for expected credit losses 31 December 2020 $
0 to 3 months	37.60%	-	63,567	37,189	23,887	-
R&D tax incentive credit receivable	-	-	1,028,035	418,830	-	-
Other receivables	-	-	59,279	23,096	-	-
			1,150,881	479,115	23,887	-

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 45 days.

The Consolidated Entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other financial assets at amortised cost are recognised at amortised cost, less any allowance for expected credit losses.

Fair value and credit risk
Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.

Note 11. Current assets - inventories

	Consolidated 31 December 2021 $	Consolidated 31 December 2020 $
Raw materials (at cost)	99,779	68,713
Finished goods (at cost)	96,953	31,293
	196,732	100,006

Accounting policy for inventories
Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale

Note 12. Non-current assets - plant and equipment

	Consolidated 31 December 2021 $	Consolidated 31 December 2020 $
Leasehold improvements - at cost	197,978	-
Furniture and equipment	553,196	631,466
Less: Accumulated depreciation	(503,847)	(563,554)
	49,349	67,912
	247,327	67,912

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Furniture and equipment $	Leasehold improvement $	Total $
Balance at 1 January 2020	93,710	-	93,710
Additions	5,150	-	5,150
Depreciation expense	(30,948)	-	(30,948)
Balance at 31 December 2020	67,912	-	67,912
Additions	4,843	197,978	202,821
Depreciation expense	(23,406)	-	(23,406)
Balance at 31 December 2021	49,349	197,978	247,327

Accounting policy for furniture and equipment
All furniture and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of the residual values, over their estimated useful lives. The expected net useful lives are 3 to 10 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Note 13. Non-current assets - right-of-use assets

	Consolidated 31 December 2021 $	Consolidated 31 December 2020 $
Buildings - right-of-use	177,774	177,774
Less: Accumulated depreciation	(88,886)	(12,698)
	88,888	165,076

Accounting policy for right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Consolidated Entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Consolidated Entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Note 14. Non-current assets - intangibles

	Consolidated 31 December 2021 $	Consolidated 31 December 2020 $
Intellectual property	125,262,000	121,362,000
Less: Accumulated amortisation and impairment	(125,160,000)	(120,931,000)
	102,000	431,000

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	**Intellectual property $**	**Total $**
Balance at 1 January 2020	857,000	857,000
Amortisation expense	(426,000)	(426,000)
Balance at 31 December 2020	431,000	431,000
Amortisation expense	(329,000)	(329,000)
Balance at 31 December 2021	102,000	102,000

Note 14. Non-current assets - intangibles (continued)

Intellectual Property
Intellectual property asset cost represents the fair value of nine patents acquired by the Consolidated Entity at 31 December 2004, less accumulated amortisation and adjusted for any accumulated impairment loss. Intellectual property is amortised over its useful life, being the patent life of between 15 -19 years at acquisition (to between 2020 and 2023), and tested for indicators of impairment at each reporting date. In 2010 one of the purchased patents was abandoned.

The carrying value of the acquired patents is dependent on the continued sales of Vital ET® and the commercialisation of TPM®/Oxycodone prior to the expiry of the patents. Revenue assumptions related to the patents were reassessed 31 December 2021, with no impairment impacting the value of the assets.

Accounting policy for intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Development costs
An intangible asset arising from development expenditure on an internal project is recognised only when Avecho can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Any expenditure capitalised is amortised over the period of expected future benefit from the related project on a straight line basis. The Consolidated Entity did not capitalise any development costs during 2021 financial year (2020: Nil). All R&D expenditure was expensed as they incurred.

Note 15. Current liabilities - trade and other payables

	Consolidated	
	31 December 2021 $	**31 December 2020 $**
Trade payables	75,184	110,313
Accrued expenses	78,340	57,500
Other payables	121,610	73,379
	275,134	241,192

Refer to note 20 for further information on financial instruments.

Trade payables are non-interest bearing and are generally settled on 30 day terms. Other payables are non-trade payables and non-interest bearing.

Accounting policy for trade and other payables
These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

The carrying amounts of trade and other payables are considered to be the same as fair values, due to their short term nature.

Note 16. Current liabilities - provisions

	Consolidated 31 December 2021 $	Consolidated 31 December 2020 $
Annual leave	123,833	83,617
Long service leave	216,478	205,741
	340,311	289,358

Accounting policy for short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Note 17. Non-current liabilities - provisions

	Consolidated 31 December 2021 $	Consolidated 31 December 2020 $
Long service leave	-	3,388

Accounting policy for long-term employee benefits
Long term employee benefits includes long service leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

Note 18. Equity - issued capital

	Consolidated 31 December 2021 Shares	Consolidated 31 December 2020 Shares	Consolidated 31 December 2021 $	Consolidated 31 December 2020 $
Ordinary shares - fully paid	1,836,116,526	1,598,894,680	237,601,871	232,778,295

Note 18. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 January 2020	1,577,457,420		232,632,424
Issue of shares to key management personnel	27 April 2020	20,000,000	$0.006	120,000
Issue of shares as part of short term incentive	23 December 2020	1,437,260	$0.018	25,871
Balance	31 December 2020	1,598,894,680		232,778,295
Share issue through placement	17 February 2021	229,999,999	$0.022	5,060,001
Issue of shares on exercise of performance rights	1 July 2021	7,221,847	$0.008	57,775
Share issue costs		-	-	(294,200)
Balance	31 December 2021	1,836,116,526		237,601,871

Accounting policy for issued capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where Company purchases the Company's own equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Avecho Biotechnology Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Avecho Biotechnology Limited.

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Share buy-back
There is no current on-market share buy-back.

Capital risk management
The Consolidated Entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Consolidated Entity may, from time to time issue new shares or return capital to shareholders and / or adjust the amount of dividends paid to shareholders.

Note 19. Equity - reserves

	Consolidated	
	31 December 2021 $	31 December 2020 $
Business combination reserve	27,812,871	27,812,871
Other equity-settled benefits	305,323	305,323
Foreign currency reserve	24,626	24,626
Employee equity-settled benefits reserve	859,161	394,451
	29,001,981	28,537,271

Note 19. Equity - reserves (continued)

Foreign currency reserve
The reserve is used to record the translation from Phosphagenics Inc.'s functional currency into Avecho Biotechnology Limited's reporting currency.

Business combinations reserve
The reserve is used to record fair value adjustments relating to the business combination.

Other equity-settled benefits reserve
The reserve is used to record the value of equity benefits provided to suppliers as part of their remuneration.

Employee share option and share plan reserve
The reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. For further details refer to note 31 in the Financial Statements.

Note 20. Financial instruments

Financial risk management objectives
This note explains the Consolidated Entity's exposure to financial risks and how these risks could affect the Consolidated Entity's future financial performance. Current year profit and loss information has been included where relevant to add further context.

The Consolidated Entity's overall risk management program recognises the unpredictability of financial markets and seeks to minimise material adverse effects on the financial performance of the Consolidated Entity. Executive Leadership Team is responsible to the Board for the risk management program.

Risk	Source of exposure	Measurement	Management
Market risk - interest rate	Cash deposits at variable rates	Sensitivity analysis	n/a
Market risk - foreign exchange	Future commercial transactions	Cash flow forecasting	Foreign currency hedges
	Recognised financial assets and assets and liabilities not denominated in AUD	Sensitivity analysis	Foreign currency hedges
Credit risk	Cash and cash equivalents, trade receivables	Aging analysis	Credit limits
Liquidity risk	Other liabilities	Rolling cash flow forecast	Availability of cash

Market risk

Foreign currency risk
Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Consolidated Entity's functional currency. The Consolidated Entity is exposed to foreign exchange risk arising from currency exposures of transactions in US Dollars. The Consolidated Entity sells TPM® and Vital ET® products and buys raw materials for their production which are largely denominated in US Dollars. The Consolidated Entity still has outstanding commitments related to ongoing research and development, which are denominated in US Dollars as well.

The Consolidated Entity regularly monitors the potential impact of movements in foreign exchange exposure and from time to time may take out short-term foreign exchange hedges for committed expenditures.

At 31 December 2021 the Consolidated Entity's had the following exposure to US dollar foreign currency not designated in cash flow hedges:

	Assets		Liabilities	
Consolidated	31 December 2021 $	31 December 2020 $	31 December 2021 $	31 December 2020 $
US dollars	681,857	188,851	(9,451)	(37,707)

Note 20. Financial instruments (continued)

Sensitivity
The Consolidated Entity is primarily exposed to changes in US/AUD exchange rates. The sensitivity of profit or loss to changes in the US/AUD exchange rate arises mainly from US-denominated financial assets and liabilities.

	AUD/USD strengthened	AUD strengthened		AUD/USD weakened	AUD weakened	
Consolidated - 31 December 2021	**% Change**	**Effect on profit before tax**	**Effect on equity**	**% Change**	**Effect on profit before tax**	**Effect on equity**
Net USD denominated financial assets	10%	(61,128)	(61,128)	10%	74,712	74,712

	AUD/USD strengthened	AUD strengthened		AUD/USD weakened	AUD weakened	
Consolidated - 31 December 2020	**% Change**	**Effect on profit before tax**	**Effect on equity**	**% Change**	**Effect on profit before tax**	**Effect on equity**
Net USD denominated financial assets	10%	(18,885)	(18,885)	(10%)	18,885	18,885

Price risk
The Consolidated Entity is not exposed to any significant price risk.

Interest rate risk
The Consolidated Entity does not holds significant interest bearing assets and therefore the income and operating cash flows are not exposed to significant market interest rate movements.

Credit risk
Credit risk arises from the financial assets of the Consolidated Entity comprising cash and cash equivalents and trade and other receivables. Credit risk refers to the risk the counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has adopted a policy of only dealing with creditworthy counterparties and setting appropriate credit limits, as a means of mitigating the risk of financial loss from defaults.

The Consolidated Entity's exposure to counterparties are continuously monitored and the aggregate value of transactions concluded are with approved counterparties. The Consolidated Entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Consolidated Entity measures credit risk on a fair value basis.

The carrying value of financial assets recorded in the financial statements, net of any allowances for losses, represents the Consolidated Entity's maximum exposure to credit risk. Maturity analysis of financial assets and liabilities based on management’s expectations as follows:

31 December 2021	**≤ 6 months $**	**6-12 months $**	**Total $**
Financial assets			
Cash and cash equivalents	3,264,764	-	3,264,764
Trade and other receivables	98,959	-	98,959
Total financial assets	3,363,723	-	3,363,723

Note 20. Financial instruments (continued)

31 December 2020	≤ 6 months $	6-12 months $	Total $
Financial assets			
Cash and cash equivalents	1,872,776	-	1,872,776
Trade and other receivables	60,285	-	60,285
Total financial assets	1,933,061	-	1,933,061

Liquidity risk

Prudent liquidity risk management implies maintain sufficient cash balances. Executive management and Directors regularly monitor the cash position of the Consolidated Entity, giving consideration to the level of expenditure and future project commitments.

Remaining contractual maturities

The following tables detail the Consolidated Entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 31 December 2021	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Remaining contractual maturities $
Non-derivatives					
Non-interest bearing					
Trade payables	-	75,184	-	-	75,184
Other payables	-	199,950	-	-	199,950
Interest-bearing - fixed rate					
Lease liability	5.50%	82,200	13,733	-	95,933
Total non-derivatives		357,334	13,733	-	371,067

Consolidated - 31 December 2020	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Remaining contractual maturities $
Non-derivatives					
Non-interest bearing					
Trade payables	-	110,313	-	-	110,313
Other payables	-	130,879	-	-	130,879
Interest-bearing - fixed rate					
Lease liability	5.50%	79,105	82,200	13,733	175,038
Total non-derivatives		320,297	82,200	13,733	416,230

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Due to the short term nature of the financial instruments, their carrying value is assumed to approximate their fair value.

Note 21. Key management personnel disclosures

Directors
The following persons were directors of Avecho Biotechnology Limited during the financial year:

Dr Gregory Collier (Chairman)
Dr Ross Murdoch (Non-Executive Director)
Mr Matthew McNamara (Non-Executive Director)
Mr David Segal (Non-Executive Director, resigned on 31 May 2021)

Other key management personnel
The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Consolidated Entity, directly or indirectly, during the financial year:

Paul Gavin (Chief Executive Officer)
Roksan Libinaki (Chief Operating Officer)

Compensation
The aggregate compensation made to directors and other members of key management personnel of the Consolidated Entity is set out below:

	Consolidated	
	31 December 2021 $	31 December 2020 $
Short-term employee benefits*	697,470	745,708
Post-employment benefits	56,560	64,115
Long-term benefits	8,503	31,270
Share-based payments	445,757	393,949
	1,208,290	1,235,042

* *Short-term employee benefits has been updated to reflect the annual leave balance movement for 2020, to be consistent with current year presentation.*

Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton, the auditor of the Consolidated Entity, and its network firms:

	Consolidated	
	31 December 2021 $	31 December 2020 $
Audit services		
Audit and review of the financial statements	66,000	60,000
Other services - network firms		
Tax compliance	18,500	20,500

Note 23. Contingent asset and liabilities

The Consolidated Entity provided bank guarantees in the form of term deposits totalling $85,730 (2020: $85,730) as security for the corporate credit card facility and lease at its principal place of business.

The Consolidated Entity is currently in the process of deregistering a non-operating subsidiary in the United States of America. The Consolidated Entity applied for an abatement of the penalty imposed by Internal Revenue Service (IRS) for years, which subsidiary was not engaged in business activities and was in the process of preparing for deregistration. Management is confident that the application for the abatement will be successful. However, in case if the application is not successful, the Consolidated Entity may be ordered to pay the penalties. Currently no provision was recognised in the financial statements in relation to these penalties.

The Directors are not aware any other contingent assets or contingent liabilities as at 31 December 2021 (2020: Nil).

Note 24. Commitments

The Consolidated Entity does not have any commitments at 31 December 2021 (2020: Nil).

Note 25. Related party transactions

Parent entity
Avecho Biotechnology Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 27.

Key management personnel
Disclosures relating to key management personnel are set out in note 21 and the remuneration report included in the directors' report.

Transactions with other related parties
There were no transactions with other related parties during the current and previous financial year.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Note 26. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	31 December 2021 $	31 December 2020 $
Loss after income tax	(732,363)	(25,264,624)
Total comprehensive income	(732,363)	(25,264,624)

Note 26. Parent entity information (continued)

Statement of financial position

	Parent 31 December 2021 $	Parent 31 December 2020 $
Total current assets	3,891,650	2,398,811
Total assets	4,227,865	3,354,589
Total current liabilities	695,656	603,581
Total liabilities	709,359	700,169
Equity		
Issued capital	237,601,871	232,778,296
Other equity-settled benefits	305,323	305,323
Foreign currency reserve	24,626	275,522
Employee equity-settled benefits reserve	859,161	394,451
Accumulated losses	(235,272,475)	(231,099,172)
Total equity	3,518,506	2,654,420

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2021 (2020: Nil).

Contingent liabilities
The parent entity had no contingent liabilities as 31 December 2021 (2020: Nil).

Capital commitments - plant and equipment
The parent entity had no capital commitments for plant and equipment as at 31 December 2021 (2020: Nil).

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the Consolidated Entity, as disclosed in note 1, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 27. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name	Principal place of business / Country of incorporation	Ownership interest 31 December 2021 %	Ownership interest 31 December 2020 %
Vital Health Sciences Pty Ltd	Australia	100%	100%
Phosphagenics Inc. *	USA	100%	100%

* Non-operating subsidiary which the Consolidated Entity is in the process of deregistering.

Note 28. Events after the reporting period

On 10 January 2022, the Company has issued 1,696,000 Fully Paid Ordinary Shares (Shares) to employees under the Company's Equity Incentive Plan.

On 2 February 2022, the Company announced it has entered into a product license and supply agreement (Agreement) with Team SAAS LLC (SAAS) granting SAAS exclusive rights to commercialise a recreational cannabis distillate containing TPM® for use in the manufacture of edible cannabis products in the US.

The Company will receive a licence fee calculated by reference to SAAS' net profits after tax. The Company will receive 50% of SAAS' net profit after tax on net sales of the product, which will be paid quarterly. SAAS must pay a minimum licence fee of US$1M within the first 12 months, US$2.5m within the first 2 years and US$5 million within the first 4 years.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Note 29. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	31 December 2021 $	31 December 2020 $
Loss after income tax expense for the year	(3,416,116)	(2,634,853)
Adjustments for:		
Depreciation and amortisation	428,594	536,629
Share-based payments	532,486	530,322
Foreign exchange differences	-	(185,973)
Interest received	(531)	(793)
Interest expense	-	5,925
Allowance for expected credit losses and debts written off	47,298	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(671,649)	276,316
Decrease/(increase) in inventories	(96,726)	48,758
(Increase)/decrease in other current assets	(3,950)	(75,292)
Increase in trade and other payables	33,825	53,131
(Decrease)/Increase in provisions	47,564	21,870
Net cash used in operating activities	(3,099,205)	(1,423,960)

Note 30. Earnings per share

	Consolidated	
	31 December 2021 $	31 December 2020 $
Loss after income tax attributable to the owners of Avecho Biotechnology Limited	(3,416,116)	(2,634,853)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	1,802,268,920	1,591,077,963
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,802,268,920	1,591,077,963

Note 30. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	(0.19)	(0.17)
Diluted earnings per share	(0.19)	(0.17)

As at 31 December 2021, the Consolidated Entity has 97,844,268 (2020: 87,616,515) unquoted options, which are excluded from the calculation of basic and diluted earnings per share. These equity instruments are considered to be anti-dilutive, as their inclusion would not decrease earnings per shar nor increase the loss per share, from continuing operations.

Accounting policy for earnings per share
Basic loss per share is calculated by dividing:
- the loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted loss per share
Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:
- the after income tax effect of interest and other financing costs associated with dilutive potential
- ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares

Note 31. Share-based payments

The Consolidated Entity provides benefits to service providers in the form of share-based payments. Employees render services in exchange for rights over shares (equity-settled transactions). There is currently one scheme in place to provide these benefits to employees, being the Equity Incentive Plan (EIP), under which following rights over shares are provided to employees and directors:

- On 20 November 2020, the Company granted 83,866,515 unlisted options to all Executives and staff at an exercise price of $0.0169 (1.69 cents) per option, expiring on 20 May 2024. The options were valued using Binomial option pricing model. These Options are subject to service condition and expiring on 20 May 2024 (being 42 months from grant date). These Options will vest to executives and staff in four tranches:

  1) Tranche 1: 20 November 2020
  2) Tranche 2: 20 November 2021
  3) Tranche 3: 20 November 2022
  4) Tranche 4: 20 November 2023

- On 20 November 2020, the Company issued 13,977,753 Options to Directors at an exercise price of $0.0169 (1.69 cents) per option. These options were approved by Shareholders at the 2021 Annual General Meeting of the Company held on 31 May 2021. Under IG4, which is set out in the Appendix to AASB 2 Share Based Payments, the service period was determined to be 20 November 2020. At the grant date, being the date of the 2021 Annual General Meeting, these options were re-measured using the Binomial option pricing model.

All options granted to key management personnel have been issued in accordance with the provisions of the Equity Incentive Plan (EIP). Set out below are summaries of options granted under the plan:

31 December 2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Expired	Balance at the end of the year
31/05/2017	09/09/2021	$0.023	3,750,000	-	(3,750,000)	-
20/11/2020	20/05/2024	$0.017	83,866,515	-	-	83,866,515
28/05/2021	29/11/2024	$0.017	-	13,977,753	-	13,977,753
			87,616,515	13,977,753	(3,750,000)	97,844,268
Weighted average exercise price		$0.017	$0.017	$0.017	$0.023	$0.017

Note 31. Share-based payments (continued)

31 December 2020

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Expired	Balance at the end of the year
31/05/2017	09/09/2021	$0.023	3,750,000	-	-	3,750,000
20/11/2020	20/05/2024	$0.017	-	83,866,515	-	83,866,515
			3,750,000	83,866,515	-	87,616,515
Weighted average exercise price		$0.017	$0.023	$0.017	$0.000	$0.017

When a participant in the EIP ceases employment prior to the vesting of their options, the options are forfeited unless cessation of employment is due to retirement or death or otherwise provided by the Board of directors.

Option pricing model

Fair value for the EIP 2017 and 2020 Option were calculated using a variation of the Binomial option pricing model. Options will be settled in ordinary shares of Avecho Biotechnology Limited and vested options lapse if unexercised after the expiry date.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance is fulfilled (the vesting period), ending on the date on which the relevant party becomes fully entitled to the award (the vesting date).

Model Inputs	2021 Director Options	2020 Executives and Employee Options
Dividend yield %	0.0%	0.0%
Expected volatility %	194%	188%
Risk-free interest rate %	0.10%	0.11%
Option life (years)	3.5 years	3.5 years
Option Exercise price $	$0.017	$0.017

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Set out below are summaries of performance rights granted under the plan:

31 December 2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
18/08/2020	18/08/2023	$0.000	7,221,847	-	(7,221,847)	-	-
			7,221,847	-	(7,221,847)	-	-

31 December 2020

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
18/08/2020	18/08/2023	$0.000	-	7,221,847	-	-	7,221,847
			-	7,221,847	-	-	7,221,847

Reconciliation of share based payments expense recorded in the statement of profit and loss relating to each class of share based payment:

Note 31. Share-based payments (continued)

	Consolidated 31 December 2021 $	Consolidated 31 December 2020 $
Issue of shares as sign-on bonus	-	120,000
Performance rights to contractor	-	57,775
Issue of shares as short term incentive	25,440	25,871
Unlisted options to Executives and employees	392,590	275,094
Unlisted options to Directors	139,895	51,582
	557,925	530,322

Accounting policy for share-based payments
Share-based compensation benefits are provided to employees via the Avecho Employee Option Plan and an employee share scheme.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The fair value of options granted under the Avecho Employee Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the Consolidated Entity's financial position as at 31 December 2021 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Dr Gregory Collier
Chairman

25 February 2022

Grant Thornton

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Independent Auditor's Report

To the Members of Avecho Biotechnology Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Avecho Biotechnology Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the Group incurred a net loss of $3,416,116 and net operating cash outflow of $3,099,205 during the year ended 31 December 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Research and development (R&D) tax rebate (Notes 2 & 5)	

Under the Research and Development (R&D) Tax Incentive scheme, the Group receives a 43.5% refundable tax offset of eligible expenditures if its turnover is less than $20 million per annum provided it is not controlled by income tax exempt entities. An R&D plan is filed with AusIndustry in the following financial year, and based on this filing, the Group receives the incentive in cash. Management performs a detailed review of the Group's total research and development expenditure to determine the potential claim under the R&D tax incentive legislation.
 	
There is a degree of judgement and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.
 	
This area is a key audit matter due to the judgements and estimates associated with the analysis.
	Our procedures included, amongst others:
	
	• obtaining the FY21 R&D Rebate calculations prepared by management and performing the following audit procedures:
	  - evaluating management's qualifications;
	  - developing an understanding of the model and identifying and assessing the key assumptions in the calculation;
	  - reviewing included expenses for reasonableness; and
	  - testing the mathematical accuracy of the accrual.
	• comparing the estimates made in previous years to the amount of cash actually received after lodgement of the R&D tax claim;
	• comparing the nature of the R&D expenditure included in the current year estimate to the prior year estimate;
	• considering the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria;
	• assessing the eligible expenditure used to calculate the estimate to the expenditure recorded in the general ledger;
	• inspecting copies of relevant correspondence with AusIndustry and the ATO related to claims;
	• engaging with our R&D specialist to review the reasonableness of the calculation; and
	• assessing the adequacy of financial statement disclosures.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilites/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 8 to 14 of the Directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Avecho Biotechnology Limited, for the year ended 31 December 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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 Australian Auditing Standards.

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Cunningham
Partner – Audit & Assurance

Melbourne, 25 February 2022

Avecho Biotechnology Limited ACN 056 482 403

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Unit A8, 2A Westall Road
Clayton VIC 3168
+61 3 9002 5000
info@avecho.com.au
https://avecho.com.au/contact-us/

Company Secretary
Melanie Leydin

Share Registry
Shareholder information in relation to shareholding or share transfer can be obtained by contacting the Company's share registry:

Computershare Limited
GPO Box 2975 Melbourne VIC 3001 Australia
Tel: 1300 850 505
https://www.computershare.com/au

For all correspondence to the share registry, please provide your Security-holder Reference Number (SRN) or Holder Identification Number (HIN).

Change of address
Changes to your address can be updated online at https://www.computershare.com/au or by obtaining a Change of Address Form from the Company's share registry. CHESS sponsored investors must change their address details via their broker.

Annual General Meeting
The Annual General Meeting will be held in on 30 May 2022. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all shareholders and released to the ASX immediately upon despatch.

The closing date for receipt of nomination for the position of Director is Wednesday 6 April 2022. Any nominations must be received in writing no later than 5.00pm (Melbourne time) on Wednesday 6 April 2022, at the Company's Registered Office.

The Company notes that the deadline for the nominations for the position of Director is separate to voting on Director elections Details of the Director's to be elected will be provided in the Company's Notice of Annual General Meeting in due course.

Corporate Governance Statement
The Company's 2021 Corporate Governance Statement once released to the ASX will be available on the Company's website at https://avecho.com.au/investor-centre/.

Annual report mailing list
All shareholders are entitled to receive the Annual Report. In addition, shareholders may nominate not to receive an annual report by advising the share registry in writing, by fax, or by email, quoting their SRN/HIN.

Securities exchange listing
Avecho Biotechnology Limited's shares are listed on the Australian Securities Exchange and trade under the ASX code AVE. The securities of the Company are traded on the ASX under CHESS (Clearing House Electronic Sub-Register System).

ASX Shareholder Disclosures

The following additional information is required by the Australian Securities Exchange in respect of listed public companies. The information is current as of 3 February 2022. The shareholder information set out below was applicable as at 3 February 2022.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of ordinary shares	% of ordinary shares
1 to 1,000	467	114,147	0.01
1,001 to 5,000	878	2,673,091	0.15
5,001 to 10,000	625	4,917,655	0.27
10,001 to 100,000	2,428	101,777,191	5.54
100,001 and over	1,391	1,728,330,222	94.04
	5,789	1,837,812,526	100.00
Holding less than a marketable parcel	3,177	32,496,274	1.77

Quoted options	Number of holders of quoted options	Number of quoted options	% of quoted options
1 to 1,000	1	100	0.00
1,001 to 5,000	0	0	0.00
5,001 to 10,000	0	0	0.00
10,001 to 100,000	119	7,112,731	5.81
100,001 and over	113	115,387,169	94.19
	233	122,500,000	100.00

Unquoted options	Number of holders of unquoted options	Number of unquoted options	% of unquoted options
100,001 and over	8	97,844,268	100.00

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
1. Mr Mark Gregory Kerr + Mrs Linda Marie Kerr (Lindmark Inv Staff S/F A/C)	164,684,474	8.96
2. HSBC Custody Nominees (Australia) Limited	105,352,596	5.73
3. Rosscope Pty Ltd (Ross Copeland Family A/C)	84,215,363	4.58
4. Mr Mark Gregory Kerr (Lindmark Inv Staff S/F A/C)	67,153,797	3.65
5. Melbourne Securities Corporation Limited (Horizon 3 Bioteh Fund A/C)	59,345,624	3.23
6. BNP Paribas Noms Pty Ltd (DRP)	35,325,418	1.92
7. Servbond Pty Limited (Servbond Pty Ltd S/F A/C)	24,000,000	1.31
8. Citicorp Nominees Pty Limited	22,934,333	1.25
9. ACK Pty Ltd (Markoff Super No 2 A/C)	20,494,147	1.12
10. Kazakco Pty Ltd (Kent Family A/C)	20,000,000	1.09
11. Mr Tony Domenic Amato	19,500,712	1.06
12. Churchcourt Pty Limited	19,162,500	1.04
13. Mr Ross Graham Copeland + Mrs Gina Copeland (Publicity Press S/F A/C)	16,868,545	0.92
14. Dr Maurice Arthur Trewhella + Mrs Elizabeth Trewhella (Simpetejen Super Fund A/C)	16,000,000	0.87
15. Mr Yong Wang	15,539,953	0.85
16. BHL Pension Pty Ltd (BHL Pension Fund A/C)	15,000,000	0.82
16. Mrs Susan Margaret Chudleigh + Mr John West Chudleigh	15,000,000	0.82
16. Mr Gary Dean Shaw	15,000,000	0.82
19. Mr Brandon Armon Batagol	13,932,870	0.76
20. Gold Road Orient Holdings Pty Ltd	12,500,000	0.68
	762,010,332	41.46

	Quoted options over ordinary share Number held	Quoted options over ordinary shares % of total quoted options issued
1. Melbourne Securities Corporation Limited (Horizon 3 Biotech Fund A/C)	22,727,273	18.55
2. Mr Mark Gregory Kerr + Mrs Linda Marie Kerr (Linkmark Inv Staff S/F A/C)	13,636,365	11.13
3. HSBC Custody Nominees (Australia) Limited	8,999,999	7.35
4. Rosscope Pty Ltd (Ross Copeland Family A/C)	6,668,363	5.44
5. Gazump Resources Pty Ltd	5,872,989	4.79
6. Mr Simon John Jarrett	4,000,000	3.27
7. Mrs Susan Margaret Chudleigh + Mr John Chudleigh	3,000,000	2.45
7. Churchcourt Pty Limited	3,000,000	2.45
9. Bagbo Pty Ltd	2,909,091	2.37
10. Zico Investments Pty Ltd	2,500,000	2.04
11. Mr Yong Wang	2,296,939	1.88
12. BVB Custodian Pty Ltd (B V B A/C)	2,000,000	1.63
12. Mr Jean Luc Raud	2,000,000	1.63
14. Mr James Kerr	1,500,000	1.22
15. Mr Domenico Tony Amato	1,450,000	1.18
16. Mr Brandon Armon Batagol	1,313,637	1.07
17. Mr Tony Domenic Amato	1,136,364	0.93
17. Green Mountains Investments Ltd	1,136,364	0.93
19. JYZ Pair Pty Ltd	1,050,000	0.86
20. Mr Tony Domenic Amato (The Amato Group S/F A/C)	1,000,000	0.82
20. Mixyard Pty Limited	1,000,000	0.82
20. Mr Ric Segelow	1,000,000	0.82
20.SSDG Pty Ltd (SSDG Super Fund A/C)	1,000,000	0.82
	91,197,384	74.45

Unquoted options

	Number on issue	Number of holders
Unlisted options issued on 20 November 2020 and expiring on 20 May 2024	83,866,515	5
Unlisted options issued on 31 May 2021 and expiring on 29 November 2024	13,977,753	3

The following persons hold 20% or more of unquoted options:

Name	Class	Number held
Paul Gavin	Options expiring 20 May 2024	39,936,436
Roksani Libinakis	Options expiring 20 May 2024	19,968,218

Substantial holders
Substantial holders in the company are set out below:

	Ordinary shares Number held
Mark Gregory Kerr	199,503,526*

**as reported in the last Form 604 lodged on the ASX.*

Voting rights
The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Quoted and Unquoted options
Quoted and unquoted options do not have voting rights.

Unquoted performance rights
Unquoted performance rights do not have voting rights.