

Avecho Biotechnology Limited

ABN 32 056 482 403

Annual Report - 31 December 2022

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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 2022.

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)

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

Phase III Clinical Study

In December 2022, Avecho announced that it had received ethics approval to conduct a pivotal Phase III study investigating the effectiveness of its proprietary CBD soft-gel capsule in the treatment of insomnia.

Titled '*A randomised, double-blind, placebo-controlled Phase III clinical study evaluating the efficacy and safety of CBD TPM® capsules in adults for use in the reduction of insomnia severity*,' the study is set to be the largest randomised, placebo-controlled study being undertaken in Australia, and will support registration of cannabidiol as an over-the-counter medicine with the Therapeutic Goods Administration (TGA).

Under the study design, which was developed and refined throughout 2022 in consultation with a number of international sleep experts, 540 patients will be enrolled across three treatment groups to compare nightly CBD doses of 75 and 150 mg CBD with placebo over an 8-week dosing period. The study will measure the effects of the treatments on reductions in insomnia severity, as measured by the Insomnia Severity Index (ISI), and subjective sleep efficiency. Additional data will be collected on other objective and subjective aspects of sleep. This will be a multicentre study, conducted in up to 10 sites around Australia. The lead site will be Monash Medical Centre in Melbourne, Australia under the supervision of Principal Investigator, Associate Professor Darren Mansfield, Deputy Director of Monash Health.

Expanded cannabinoid portfolio

This year saw the inclusion of a new clinical asset into Avecho's cannabinoid product portfolio.

A collaboration with the Lambert Initiative for Cannabinoid Therapeutics at the University of Sydney explored the effectiveness of a topical CBD TPM® formulation in the treatment of osteoarthritis of the hand. The outcomes from the Phase IIa study, which demonstrated significant improvements in self-reported measures of pain, grip strength, finger stiffness and hand functionality, now warrant further investigation in a larger placebo-controlled study.

Having demonstrated the increased absorption of CBD from both oral and topical dosage forms, Avecho has now manufactured these same dosage forms incorporating THC, CBG, CBC and CBN, to further extend the portfolio of cannabinoid products available with increased absorption. These products have been placed on stability and are undergoing laboratory assessments for increased absorption.

The topical CBG TPM® formulation has already been earmarked for a subsequent Phase II clinical trial with the Lambert Initiative, with the trial documentation currently under development.

The increasing body of clinical evidence supports the potent versatility of Avecho's CBD-TPM® proprietary combination and its potential to address diverse unmet clinical needs in the community, as well as becoming a unique point of difference within the lucrative recreational cannabis market in the United States.

Review of financial results

The loss for the Consolidated Entity after providing for income tax amounted to \$2,342,391 (31 December 2021: \$3,416,116).

The company invested \$1,593,880 in research and development during 2022, with the majority supporting the design, set-up and ethics approval of the impending Phase III clinical trial and associated manufacturing work.

Total revenue increased by 42% for the year to \$1,129,261 (31 December 2021: \$793,600), mainly attributable Vital ET® sales made to Ashland during the year.

Other income decreased by 36% to \$727,823 (31 December 2021: \$1,144,568), largely attributed to R&D tax incentives of \$622,923 (31 December 2021: \$1,124,946). Overall reduction in the research and development activities compared to 2021 financial year was as the Company moved into pre-Phase-III trials of CBD soft-gel capsule during 2022 financial year.

Expenses from continuing operations decreased by 24% to \$3,863,332 (31 December 2021: \$5,068,621), largely due to lower research and development cost of \$1,593,880 (31 December 2021: \$2,924,387).

At 31 December 2022, the Consolidated Entity held \$1,468,210 in cash and cash equivalents (31 December 2021: \$3,264,764). The net assets of the Consolidated Entity decreased by \$2,111,694 to \$2,424,896 as at 31 December 2022 (31 December 2021: \$4,536,590). Working capital, being current assets less current liabilities, was \$2,105,685 (31 December 2021: \$4,112,078).

Significant changes in the state of affairs

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.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2022 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 Development Program

Avecho was actively engaged in a range of business development activities throughout 2022, both for its differentiated cannabinoid products and legacy pharmaceutical portfolio.

Avecho conducted a study in dogs comparing the absorption of CBD from its oral CBD formulation with that of Epidiolex®, the only FDA approved CBD product. This study was conducted at the request of interested parties and demonstrated that Avecho's oral CBD product increased bioavailability compared to Epidiolex®. Furthermore, the study found that adding TPM® directly to Epidiolex increased CBD absorption. Data from this study has formed a compelling piece of ongoing partnering discussions.

Avecho signed a licensing and supply agreement with Team SAAS LLC in February for the use of its proprietary TPM® technology in a unique cannabis distillate to be developed by SAAS for use in the recreational cannabis market. This product has yet to be commercialized. However, Avecho has expanded its discussions with North American firms in the recreational market and has developed prototype cannabis edibles enhanced using TPM®.

Avecho signed a development agreement with leading global consumer packaged goods company, Perrigo Company plc, for the development of a topical TPM®-enhanced ibuprofen gel for the US market. Perrigo plans to conduct a clinical trial in a pain-related indication using the ibuprofen TPM® gel in 2023. Pending positive results of this trial, the TPM®-enhanced gel has the potential to be the first topical ibuprofen product approved in the US.

Avecho announced that global biopharmaceutical company Athenex had submitted Avecho's TPM®-enhanced phytonadione injectable product to the FDA for feedback via a pre-IND meeting request. Pending positive FDA feedback, a license and development agreement will be finalised with Athenex, which will enable them to finish the remaining development stages with the goal of obtaining US registration.

The Company looks forward to concluding further deals on various products during 2023.

Risks and uncertainties

The Consolidated Entity is subject to risks that are specific to the Consolidated Entity and the Consolidated Entity's business activities, as well as general risks.

Future funding risks

The Consolidated Entity had a cash and cash equivalents of \$1.5 million, and net assets of \$2.4 million. The Consolidated Entity require additional financing in the future to sufficiently fund the continued research, development and operations and its other longer-term objectives. The Consolidated Entity's ability to raise additional funds will be subject to, among other things, factors beyond the control of the Consolidated Entity and its Directors, including cyclical factors affecting the economy and share markets generally. If for any reason the Consolidated Entity was unable to raise future funds, its ability to achieve its milestones or continue future development / commercialisation of its technology / product would be significantly affected.

The Directors regularly review the cash flow requirements to ensure that the Consolidated Entity has sufficient cash inflows to settle its creditors and other liabilities. In addition, the Consolidated Entity is eligible for certain government grants and R&D tax incentive.

Research and development risk

The Consolidated Entity's product range includes products that are in clinical development phase and need to be further tested before they can progress to human clinical trials. Pre-clinical and clinical development of the Consolidated Entity's products could take several years to complete and might fail for several reasons including but not limited to lack of efficacy, failure to obtain regulatory approval, difficulty or failure to manufacture the Consolidated Entity's products on a large scale, or toxicity. The Consolidated Entity monitors product developments and engages proactively with key stakeholders to manage this risk.

Regulatory and licensing risks

The research, development, manufacture and sale of products is subject to a number of regulations prescribed by government authorities in Australia and overseas. Generally, there is a high rate of failure for drug candidates proceeding through pre-clinical and clinical trials. Further, even if the Consolidated Entity views the results of a trial to be positive, the FDA or other regulatory authorities may disagree with the Consolidated Entity's interpretation of the data. Thus, any product deploying Avecho' technology may be shown to be unsafe, non-efficacious, difficult or impossible to manufacture on a large scale, uneconomical to market, compete with superior products marketed by third parties, fail to secure meaningful reimbursement approval, or not be as attractive as alternative treatments.

The Consolidated Entity monitors legislative and regulatory developments and engages proactively with key stakeholders to manage this risk.

Dependence on service providers and third-party collaborators

There is no guarantee that the Consolidated Entity will be able to find suitable third-party providers and third-party collaborators including academic institutions to complete the development and commercialisation of its products. The Consolidated Entity therefore is exposed to the risk that any of these parties can experience problems related to operations, financial strength or other issues, and collaborative agreements may be terminable by the Consolidated Entity's partners. Non-performance, suspension or termination of relevant agreements could negatively impact the progress or success of the Consolidated Entity's product development efforts, financial condition and results of operations.

The Consolidated Entity monitors commercial developments and engages proactively with key stakeholders to manage this risk.

Reliance on key personnel

The Consolidated Entity's success depends to a significant extent upon its key management personnel, as well as other management and technical personnel including those employed on a contractual basis. The loss of the services of such personnel or the reduced ability to recruit additional personnel could have an adverse effect on the performance of the Consolidated Entity.

The Consolidated Entity maintains a mixture of permanent staff and expert consultants to advance its programs and ensure access to multiple skill sets. The Consolidated Entity, reviews remunerations and staffing requirements regularly.

Intellectual property risk

The Consolidated Entity's ability to leverage its innovation and expertise is dependent on its ability to protect its intellectual property including maintaining patent protection for its product candidates and their respective targets and any improvements to it. A failure or inability to protect the Consolidated Entity's intellectual property rights could have an adverse impact on operating and financial performance. The Consolidated Entity may incur significant costs in maintaining or defending its intellectual property rights.

The Consolidated Entity proactively monitors applications and renewals of patents and licences; and requires relevant stakeholders to comply with the requirements set out in the confidentiality policy.

IT system failure and cyber security risks

Any information technology system is potentially vulnerable to interruption and/or damage from a number of sources, including but not limited to computer viruses, cyber security attacks and other security breaches, power, systems, internet and data network failures, and natural disasters.

The Consolidated Entity is committed to preventing and reducing cyber security risks through outsourced the IT management to a reputable services provider. In addition, the Consolidated Entity has an insurance policy covering IT and cyber security matters.

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):	Invision 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: Matthew McNamara
Title: Non-Executive Director
Qualifications: BSc (Hons), MBA
Experience and expertise: Mr Matthew McNamara has over 30 years' executive and funds management experience in the healthcare and medical sciences sector. He has a BSc (Hons) in Molecular Biology, has an MBA, and is a GAICD.

In 2003, he founded BioBridge Australia, a biotechnology commercialisation advisory company and advised a number of public biotechnology / investment companies.

Mr McNamara is currently Director and Chief Investment Officer of Horizon 3 Healthcare, a healthcare fund manager that has invested in Avecho Biotechnology Limited through trustee Melbourne Securities Corporation Limited.

He is presently a director of Microbio Pty Ltd, ESN Cleer Pty Ltd, Cardiac Dimensions Pty Ltd, and Grey Innovation Investment Partners Pty Ltd. He has held previous directorship in Adherium Ltd (ASX: ADR), Avita Medical Ltd (ASX: AVH), Bioxyne Ltd (ASX: BXN) and Saluda Medical Pty Ltd.

Mr McNamara has also served as CIO of BioScience Manager Pty Ltd, and was CEO of SciCapital Pty Ltd, a Life Sciences Venture Capital fund.

Other current directorships: None
Former directorships (last 3 years): Adherium Ltd (ASX: ADR)
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 2022, and the number of meetings attended by each director were:

	Full Board	
	Held	Attended
Gregory Collier	6	6
Ross Murdoch	6	5
Matthew McNamara	6	6

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.

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 2022, the Company issued nil performance rights (31 December 2021: nil) and nil unlisted options (31 December 2021: 97,844,268) 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.

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
Chairman	100,000	100,000
Non-Executive Director	55,500	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 \$210,500 (31 December 2021: \$236,334). Directors' fees include statutory superannuation contributions as required under Australian superannuation guarantee legislation.

Non-executive director's fees are reviewed annually by the Board. Other than a revision to superannuation as required under the Australian superannuation guarantee legislation, there have been no changes to non-executive director fees in either 31 December 2022 or 31 December 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 Annual General Meeting ('AGM') on 30 May 2022

At the Company's AGM held on 30 May 2022, 97.53% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2021. 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)
- Matthew McNamara (Non-Executive Director)

Other key Executive 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		Total
	Salary and fees	Annual leave ⁽ⁱⁱ⁾	Cash bonus	Super-annuation	Long service leave ⁽ⁱ⁾	Ordinary shares	Options	
31 December 2022	\$	\$	\$	\$	\$	\$	\$	\$
<i>Directors:</i>								
Gregory Collier	100,000	-	-	-	-	-	11,135	111,135
Ross Murdoch	50,114	-	-	5,136	-	-	7,423	62,673
Matthew McNamara	50,114	-	-	5,136	-	-	7,423	62,673
<i>Chief Executive Officer</i>								
Paul Gavin	227,000	10,897	-	23,268	9,233	-	84,422	354,820
<i>Other Key Management Personnel:</i>								
Roksana Libinaki	200,000	7,800	-	20,500	8,431	-	42,211	278,942
	627,228	18,697	-	54,040	17,664	-	152,614	870,243

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

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Salary and fees	Annual leave ⁽ⁱ⁾	Cash bonus	Super-annuation	Long service leave ⁽ⁱ⁾	Ordinary shares	Options	
31 December 2021	\$	\$	\$	\$	\$	\$	\$	\$
<i>Directors:</i>								
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 ⁽ⁱⁱ⁾	20,928	-	-	1,988	-	-	(11,463)	11,453
<i>Chief Executive Officer</i>								
Paul Gavin ⁽ⁱⁱⁱ⁾	227,000	2,635	20,430	22,133	4,507	13,620	186,948	477,273
<i>Other Key Management Personnel:</i>								
Roksana Libinaki ^(iv)	200,000	8,069	18,180	19,500	3,996	11,820	93,474	355,039
	648,156	10,704	38,610	56,560	8,503	25,440	420,317	1,208,290

- (i) Annual leave and long service leave amounts represent the movements in the accrued leave payable balances compared to the previous financial year.
- (ii) David Segal (Non-Executive Director, resigned 31 May 2021).
- (iii) 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.
- (iv) 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.

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	\$250,268	6 months
Roksan Libinaki (Chief Operating Officer)	No fixed term and a notice period of 3 months	\$220,500	3 months

* Base salary quoted as at 31 December 2022, reviewed annually by the Board. Other than a revision to superannuation as required under the Australian superannuation guarantee legislation, there have been no changes to executive salaries during 31 December 2022.

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

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

In addition, on 20 November 2020, the Company granted Executives Option over ordinary shares in accordance with the provisions of the Equity Incentive Plan (EIP). These Options are subject to service condition and expiring on 20 May 2024 (being 42 months from grant date).

Share-based compensation

Issue of shares

On 10 January 2022 the Company announced grant of shares key management personnel as part of compensation during the year ended 31 December 2021.

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		Vesting date and		Expiry date	Fair value per option	
	granted	Grant date	exercisable date			Exercise price	at grant date
Paul Gavin	9,984,109	20 November 2020	20 November 2020		20 May 2024	\$0.017	\$0.011
Paul Gavin	9,984,109	20 November 2020	20 November 2021		20 May 2024	\$0.017	\$0.011
Paul Gavin	9,984,109	20 November 2020	20 November 2022		20 May 2024	\$0.017	\$0.011
Paul Gavin	9,984,109	20 November 2020	20 November 2023		20 May 2024	\$0.017	\$0.011
Roksas Libinaki	4,992,054	20 November 2020	20 November 2020		20 May 2024	\$0.017	\$0.011
Roksas Libinaki	4,992,054	20 November 2020	20 November 2021		20 May 2024	\$0.017	\$0.011
Roksas Libinaki	4,992,055	20 November 2020	20 November 2022		20 May 2024	\$0.017	\$0.011
Roksas Libinaki	4,992,055	20 November 2020	20 November 2023		20 May 2024	\$0.017	\$0.011
Gregory Collier	1,497,616	31 May 2021	31 May 2021		29 November 2024	\$0.017	\$0.020
Gregory Collier	1,497,616	31 May 2021	31 May 2022		29 November 2024	\$0.017	\$0.020
Gregory Collier	1,497,616	31 May 2021	31 May 2023		29 November 2024	\$0.017	\$0.020
Gregory Collier	1,497,617	31 May 2021	31 May 2024		29 November 2024	\$0.017	\$0.020
Ross Murdoch	998,411	31 May 2021	31 May 2021		29 November 2024	\$0.017	\$0.020
Ross Murdoch	998,411	31 May 2021	31 May 2022		29 November 2024	\$0.017	\$0.020
Ross Murdoch	998,411	31 May 2021	31 May 2023		29 November 2024	\$0.017	\$0.020
Ross Murdoch	998,411	31 May 2021	31 May 2024		29 November 2024	\$0.017	\$0.020
Matthew McNamara	998,411	31 May 2021	31 May 2021		29 November 2024	\$0.017	\$0.020
Matthew McNamara	998,411	31 May 2021	31 May 2022		29 November 2024	\$0.017	\$0.020
Matthew McNamara	998,411	31 May 2021	31 May 2023		29 November 2024	\$0.017	\$0.020
Matthew McNamara	998,411	31 May 2021	31 May 2024		29 November 2024	\$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 2022 are set out below:

Name	Number of options granted during the year		Number of options granted during the year		Number of options vested during the year		Number of options vested during the year	
	31 December 2022		31 December 2021		31 December 2022		31 December 2021	
Gregory Collier	-	-	5,990,465	-	1,497,616	-	1,497,616	-
Matthew McNamara	-	-	3,993,644	-	998,411	-	998,411	-
Ross Murdoch	-	-	3,993,644	-	998,411	-	998,411	-
Paul Gavin	-	-	-	-	9,984,109	-	9,984,109	-
Roksas Libinaki	-	-	-	-	4,992,054	-	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 2022 (31 December 2021: 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.

	2022 \$	2021 \$	2020 \$	2019 \$	2018 \$
Total revenue from continuing operations	1,129,261	793,600	384,627	4,238,113	1,394,275
Loss from continuing operations	(2,342,391)	(3,416,116)	(2,634,853)	849,955	(3,991,020)

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:

	2022	2021	2020	2019	2018
Share price at financial year end (cents)	1.50	1.50	2.90	0.40	0.50
Basic earnings per share (cents per share)	(0.13)	(0.19)	(0.17)	0.05	(0.25)
Diluted earnings per share (cents per share)	(0.13)	(0.19)	(0.17)	0.05	(0.25)

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
<i>Ordinary shares</i>					
Gregory Collier	2,000,000	-	-	-	2,000,000
Ross Murdoch	1,666,667	-	-	-	1,666,667
Paul Gavin	10,859,508	-	-	-	10,859,508
Roksana Libinaki	11,100,441	-	-	-	11,100,441
	25,626,616	-	-	-	25,626,616

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
<i>Options over ordinary shares</i>					
Gregory Collier	5,990,465	-	-	-	5,990,465
Matthew McNamara	3,993,644	-	-	-	3,993,644
Ross Murdoch	3,993,644	-	-	-	3,993,644
Paul Gavin	39,936,436	-	-	-	39,936,436
Roksana Libinaki	19,968,218	-	-	-	19,968,218
	73,882,407	-	-	-	73,882,407

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
			<u>220,344,268</u>

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

There were no ordinary shares of Avecho Biotechnology Limited issued on the exercise of options during the year ended 31 December 2022 and up to the date of this report.

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 23 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 23 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 (including independence standards) 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

15 March 2023

Grant Thornton Audit Pty Ltd

Level 22 Tower 5
Collins Square
727 Collins Street
Melbourne VIC 3008
GPO Box 4736
Melbourne VIC 3001
T +61 3 8320 2222

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 2022, 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, 15 March 2023

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		Consolidated	
	Note	31 December 2022	31 December 2021
		\$	\$
Revenue from contracts with customers	5	1,129,260	793,600
Cost of sales		(336,142)	(285,663)
Gross profit		793,118	507,937
Research and development tax incentive and other income	6	727,823	1,144,568
Research and development expenses	7	(1,593,880)	(2,134,259)
Administration and corporate expenses	8	(2,263,103)	(2,924,387)
Finance costs		(6,349)	(9,975)
Loss before income tax expense		(2,342,391)	(3,416,116)
Income tax expense	9	-	-
Loss after income tax expense for the year attributable to the owners of Avecho Biotechnology Limited		(2,342,391)	(3,416,116)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Avecho Biotechnology Limited		(2,342,391)	(3,416,116)
		Cents	Cents
Basic earnings per share	31	(0.13)	(0.19)
Diluted earnings per share	31	(0.13)	(0.19)

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

		Consolidated 31 December 2022	31 December 2021
	Note	\$	\$
Assets			
Current assets			
Cash and cash equivalents	10	1,468,210	3,264,764
Trade and other receivables	11	745,994	1,126,994
Inventories	12	401,979	196,732
Prepayments		235,006	219,244
Total current assets		<u>2,851,189</u>	<u>4,807,734</u>
Non-current assets			
Plant and equipment	14	222,038	247,327
Right-of-use assets	13	246,075	88,888
Intangibles	15	26,250	102,000
Total non-current assets		<u>494,363</u>	<u>438,215</u>
Total assets		<u>3,345,552</u>	<u>5,245,949</u>
Liabilities			
Current liabilities			
Trade and other payables	16	276,415	275,134
Lease liabilities	17	70,923	80,211
Provisions	18	398,166	340,311
Total current liabilities		<u>745,504</u>	<u>695,656</u>
Non-current liabilities			
Lease liabilities	17	175,152	13,703
Total non-current liabilities		<u>175,152</u>	<u>13,703</u>
Total liabilities		<u>920,656</u>	<u>709,359</u>
Net assets		<u>2,424,896</u>	<u>4,536,590</u>
Equity			
Issued capital	19	237,528,800	237,601,871
Reserves	20	29,000,426	29,001,981
Accumulated losses		(264,104,330)	(262,067,262)
Total equity		<u>2,424,896</u>	<u>4,536,590</u>

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 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)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 19)	4,765,801	-	-	4,765,801
Share-based payments (note 32)	-	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	<u>237,601,871</u>	<u>29,001,981</u>	<u>(262,067,262)</u>	<u>4,536,590</u>
	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2022	237,601,871	29,001,981	(262,067,262)	4,536,590
Loss after income tax expense for the year	-	-	(2,342,391)	(2,342,391)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,342,391)	(2,342,391)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 19)	1,989	-	-	1,989
Issue of shares	25,440	-	-	25,440
Share-based payments (note 32)	-	203,268	-	203,268
Transfer of other reserve balance (note 20)	-	(305,323)	305,323	-
Issue of broker options	(100,500)	100,500	-	-
Balance at 31 December 2022	<u>237,528,800</u>	<u>29,000,426</u>	<u>(264,104,330)</u>	<u>2,424,896</u>

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

		Consolidated	
	Note	31 December 2022	31 December 2021
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,192,827	787,560
Receipts from R&D tax incentive and Export Market Development Grants		1,039,938	515,741
Payments to suppliers and employees (inclusive of GST)		(3,900,327)	(4,395,714)
Finance costs paid		(1,992)	(6,792)
		(1,669,554)	(3,099,205)
Interest received		4,347	531
Net cash used in operating activities	30	(1,665,207)	(3,098,674)
Cash flows from investing activities			
Payments for plant and equipment	14	(53,124)	(202,821)
Net cash used in investing activities		(53,124)	(202,821)
Cash flows from financing activities			
Proceeds from issue of shares	19	1,989	5,060,001
Cost of issue of shares		-	(294,200)
Payment of principal element of lease liabilities		(80,212)	(72,318)
Net cash from/(used in) financing activities		(78,223)	4,693,483
Net increase/(decrease) in cash and cash equivalents		(1,796,554)	1,391,988
Cash and cash equivalents at the beginning of the financial year		3,264,764	1,872,776
Cash and cash equivalents at the end of the financial year	10	<u>1,468,210</u>	<u>3,264,764</u>

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

Note 1. General information

The financial statements cover Avecho Biotechnology Limited as a Consolidated Entity consisting of Avecho Biotechnology Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Avecho Biotechnology Limited's functional and presentation currency.

Avecho Biotechnology Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Refer to the corporate directory for further information.

A description of the nature of the Consolidated Entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 15 March 2023.

Note 2. 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 3.

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 2022 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.

Note 2. Significant accounting policies (continued)

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 27.

Going concern

The 2022 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 of the Consolidated Entity as at 31 December 2022 was a surplus of \$2,105,685 and the Consolidated Entity made a loss after tax of \$2,342,391 and incurred net operating cash outflows of \$1,665,207 during the year. Cash and cash equivalents as at 31 December 2022 were \$1,468,210. 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.

As a result of these matters there is a material uncertainty that may cast significant doubt upon the Consolidated Entity's ability to continue as a going concern and therefore whether the group will realise its assets and settle its liabilities in the ordinary course of business at the amounts recorded in the financial statements.

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 is 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.

Note 2. Significant accounting policies (continued)

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.

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.

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.

Note 2. Significant accounting policies (continued)

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.

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 3. 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

Under the Research and Development (R&D) Tax Incentive scheme, the Consolidated Entity receives a 18.5% refundable tax offset above the Consolidated Entity's tax rate, of eligible expenditures if its turnover is less than \$20 million per annum provided it is not controlled by income tax exempt entities. A R&D plan is required to be filed with AusIndustry in the following financial year, and based on this filing, the Consolidated Entity would be able to the incentive in cash. Management performs a detailed review of the Consolidated Entity's total research and development expenditure to determine the potential claim under the R&D tax incentive legislation. There is a significant 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 is to avoid the risk that expenses claimed are ineligible and the methodology adopted is not appropriate or not in accordance with the ATO guidelines including inaccurate calculations of the R&D tax incentive refund. For the period ended 31 December 2022 the Consolidated Entity has recorded R&D tax incentive of \$622,923 (31 December 2021: \$1,124,946), in relation to 2022 financial year. This R&D tax refund receivable is subject to the Consolidated Entity completing the R&D tax application process and income tax returns on a timely basis.

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 32. 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.

Note 4. Operating segments

Identification of reportable operating segments

The Consolidated Entity is organised into two operating segments based on differences in products and services provided:

Production

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

Human Health

Human Health portfolio covers delivery of pharmaceutical products through gels, injectables and patches including conduct of research and development activities.

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on a monthly basis.

Operating segment information

	Production \$	Human Health \$	Unallocated \$	Total \$
Consolidated - 31 December 2022				
Sales to external customers	1,129,260	-	-	1,129,260
Cost of sales	(336,142)	-	-	(336,142)
Interest income	-	-	4,347	4,347
Research and development tax incentive and other income	76,907	622,923	-	699,830
Depreciation and amortisation	(75,750)	-	(154,601)	(230,351)
Employee and directors benefit expense	(66,052)	(617,966)	(750,616)	(1,434,634)
Research expenses	-	(1,004,498)	-	(1,004,498)
Other operating expenses from continuing operations	(67,945)	-	(1,102,258)	(1,170,203)
Profit/(loss) before income tax expense	660,278	(999,541)	(2,003,128)	(2,342,391)
Income tax expense				-
Loss after income tax expense				(2,342,391)
Assets				
Segment assets	1,231,542	687,927	1,426,083	3,345,552
Total assets				3,345,552
Liabilities				
Segment liabilities	57,502	131,439	731,715	920,656
Total liabilities				920,656

Note 4. Operating segments (continued)

	Production \$	Human Health \$	Unallocated \$	Total \$
Consolidated - 31 December 2021				
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

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 \$1,034,496 are derived from a single external customer group (31 December 2021: \$672,258). 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 2022	31 December 2021	31 December 2022	31 December 2021
	\$	\$	\$	\$
Australia	24,551	96,299	-	438,215
Switzerland	1,009,945	583,459	-	-
United States	69,263	-	-	-
India	25,502	113,842	-	-
	1,129,261	793,600	-	438,215

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 5. Revenue from contracts with customers

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
Revenue from continuing operations		
Sale of goods transferred at a point in time	1,059,998	743,258
Royalties revenue recognised over time	-	50,342
Licence revenue recognised at a point in time	69,263	-
Total revenue from contracts with customers	<u>1,129,261</u>	<u>793,600</u>

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.

Licensing income

Licensing income is recognised when the Consolidated Entity completed the performance obligations.

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 6. Research and development tax incentive and other income

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
Net foreign exchange gain	23,646	19,091
Research and development tax incentive	622,923	1,124,946
Export Market Development Grants (EMDG)	76,907	-
Interest income	4,347	531
	<u>727,823</u>	<u>1,144,568</u>
Research and development tax incentive and other income		

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.

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 7. Research and development expenses

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
Consultancy and laboratory consumables	83,894	201,227
Clinical development expenses	920,605	1,348,561
Employment expenses associated with research and development	589,381	584,471
	<u>1,593,880</u>	<u>2,134,259</u>

Note 8. Administration and corporate expenses

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
Director fees	210,501	319,166
Share based payments expenses (note 31)	203,268	557,925
Salaries and other employee expenses (non - R&D)	334,241	222,705
Superannuation expenses	97,242	90,494
Insurance	266,601	277,064
Shareholder and listing expenses	159,169	191,272
Patent portfolio expenses	199,282	222,597
Occupancy expenses	57,893	97,030
Allowance for credit losses	1,413	49,341
Professional and consultancy fees	545,454	435,820
Depreciation of right-of-use assets and plant and equipment	154,601	99,594
Amortisation of intangible assets	75,750	329,000
Other sundry expenses	(42,312)	32,379
	<u>2,263,103</u>	<u>2,924,387</u>

Note 9. Income tax

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(2,342,391)	(3,416,116)
Tax at the statutory tax rate of 25% (2021: 26%)	(585,598)	(888,190)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	50,817	145,061
Non-deductible R&D expenditure subject to incentive	395,360	-
Non-assessable income - R&D incentive	(155,731)	(292,486)
	(295,152)	(1,035,615)
Unused tax losses and tax offsets not recognised as deferred tax assets	295,152	1,035,615
Income tax expense	<u>-</u>	<u>-</u>

Note 9. Income tax (continued)

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Deferred tax assets not recognised</i>		
The following items have not been brought to account as deferred tax assets:		
Payables, accrued expenses, and provisions	114,955	116,715
Intangibles	947,878	1,777,510
Property Plant and Equipment	13,089	(2,133)
Other - Expense deductible in future periods	73,246	46,300
Other - Right of use assets	-	1,307
Tax losses not recognised at current tax rate of 25% (31 December 2021: 26%)	45,090,048	46,267,280
Total deferred tax assets not recognised	<u>46,239,216</u>	<u>48,206,979</u>

The above deferred tax assets (net of deferred tax liabilities) have not been recognised in the statement of financial position as the recovery is uncertain.

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 substantively 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.

Note 9. Income tax (continued)

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.

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 10. Cash and cash equivalents

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Current assets</i>		
Cash at bank	1,382,480	3,179,034
Short term deposits	85,730	85,730
	<u>1,468,210</u>	<u>3,264,764</u>

Accounting policy for cash and cash equivalents

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.

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 11. Trade and other receivables

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Current assets</i>		
Trade receivables	-	63,567
Less: Allowance for expected credit losses	-	(23,887)
	-	39,680
R&D tax incentive credit receivable	687,927	1,028,035
Other receivables	58,067	59,279
	745,994	1,087,314
	<u>745,994</u>	<u>1,126,994</u>

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 2022, the Consolidated Entity recognised no allowances for expected losses (31 December 2021: \$23,887). No debts were written off during the current financial year (31 December 2021: \$25,454).

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.

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

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Consolidated	%	%	\$	\$	\$	\$
0 to 3 months	-	37.60%	-	63,567	-	23,887

Accounting policy for trade and other financial assets at amortised cost

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 12. Inventories

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Current assets</i>		
Raw materials (at cost)	99,479	99,779
Finished goods (at cost)	302,500	96,953
	<u>401,979</u>	<u>196,732</u>

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 13. Right-of-use assets

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Non-current assets</i>		
Buildings - right-of-use	411,150	177,774
Less: Accumulated depreciation	(165,075)	(88,886)
	<u>246,075</u>	<u>88,888</u>

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. Plant and equipment

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Non-current assets</i>		
Leasehold improvements - at cost	202,978	197,978
Less: Accumulated depreciation	(47,939)	-
	<u>155,039</u>	<u>197,978</u>
 Furniture and equipment	 601,320	 553,196
Less: Accumulated depreciation	(534,321)	(503,847)
	<u>66,999</u>	<u>49,349</u>
	<u><u>222,038</u></u>	<u><u>247,327</u></u>

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 2021	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
Additions	48,124	5,000	53,124
Depreciation expense	(30,474)	(47,939)	(78,413)
Balance at 31 December 2022	<u><u>66,999</u></u>	<u><u>155,039</u></u>	<u><u>222,038</u></u>

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 15. Intangibles

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Non-current assets</i>		
Intellectual property	121,362,000	121,362,000
Less: Accumulated amortisation and impairment	(121,335,750)	(121,260,000)
	<u>26,250</u>	<u>102,000</u>

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 2021	431,000	431,000
Amortisation expense	(329,000)	(329,000)
Balance at 31 December 2021	102,000	102,000
Amortisation expense	(75,750)	(75,750)
Balance at 31 December 2022	<u>26,250</u>	<u>26,250</u>

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 commercialization of TPM®/Oxycodone prior to the expiry of the patents. Revenue assumptions related to the patents were reassessed 31 December 2022, 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 current financial year (31 December 2021: Nil). All R&D expenditure was expensed as they were incurred.

Note 16. Trade and other payables

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Current liabilities</i>		
Trade payables	191,191	75,184
Accrued expenses	61,655	78,340
Other payables	23,569	121,610
	<u>276,415</u>	<u>275,134</u>

Refer to note 21 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 17. Lease liabilities

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Current liabilities</i>		
Lease liability	70,923	80,211
<i>Non-current liabilities</i>		
Lease liability	175,152	13,703
	<u>246,075</u>	<u>93,914</u>

Refer to note 21 for further information on financial instruments.

Accounting policy for lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Consolidated Entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 18. Provisions

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
<i>Current liabilities</i>		
Annual leave	152,407	123,833
Long service leave	245,759	216,478
	<u>398,166</u>	<u>340,311</u>

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.

Other 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.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Note 19. Issued capital

	Consolidated			
	31 December 2022 Shares	31 December 2021 Shares	31 December 2022 \$	31 December 2021 \$
Ordinary shares - fully paid	1,837,869,344	1,836,116,526	237,528,800	237,601,871
<i>Movements in ordinary share capital</i>				
Details	Date	Shares	Issue price	\$
Balance	1 January 2021	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		-	\$0.000	(294,200)
Balance	31 December 2021	1,836,116,526		237,601,871
Issue of shares to key management personnel	10 January 2022	1,696,000	\$0.015	25,440
Issue of shares on exercise of Options	1 September 2022	56,818	\$0.035	1,989
Share issue costs*		-	\$0.000	(100,500)
Balance	31 December 2022	1,837,869,344		237,528,800

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 20. Reserves

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
Business combination reserve	27,812,871	27,812,871
Other equity-settled benefits	100,500	305,323
Foreign currency reserve	24,626	24,626
Employee equity-settled benefits reserve	1,062,429	859,161
	<u>29,000,426</u>	<u>29,001,981</u>

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.

On 10 February 2021, the Company issued 7,500,000 Options at an exercise price of \$0.035 each, expiring on 31 December 2023. These options were issued as compensation for the capital raising services and valued using Black-Scholes model at \$0.013 per Option using the following inputs;

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/02/2021	31/12/2023	\$0.025	\$0.035	100.00%	-	0.12%	\$0.013

During the year, the Company transferred \$305,323, which was associated with options which was expired in the prior years, from other reserves to accumulated losses.

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 32.

Note 21. 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. The Consolidated Entity not exposed to significant interest rate risks.
Market risk - foreign exchange	Future commercial transactions	Cash flow forecasting	Cash flow forecasting over future foreign exchange transactions.
	Recognised financial assets and assets and liabilities not denominated in AUD	Cash flow forecasting	Cash flow forecasting over future foreign exchange transactions.
Credit risk	Cash and cash equivalents, trade receivables	Aging analysis	Apply credit limits.
Liquidity risk	Trade and other liabilities and; Future commercial transactions.	Cash flow forecasting	Rolling cash flow forecasting over current and future cash flow requirements.

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 2022, the Consolidated Entity's had the following exposure to US dollar foreign currency not designated in cash flow hedges:

	Assets		Liabilities	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Consolidated	\$	\$	\$	\$
US dollars (<i>In AUD equivalent</i>)	758,910	681,857	(4,661)	(9,451)

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.

Note 21. Financial instruments (continued)

Consolidated - 31 December 2022	AUD/USD strengthened	AUD strengthened		AUD/USD weakened	AUD weakened	
	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
Net USD denominated financial assets	10%	<u>(68,992)</u>	<u>(68,992)</u>	10%	<u>84,323</u>	<u>84,323</u>
Consolidated - 31 December 2021	AUD/USD strengthened	AUD strengthened		AUD/USD weakened	AUD weakened	
	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
Net USD denominated financial assets	10%	<u>(61,128)</u>	<u>(61,128)</u>	10%	<u>74,712</u>	<u>74,712</u>

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:

	≤ 6 months \$	6-12 months \$	Total \$
31 December 2022			
Financial assets			
Cash and cash equivalents	<u>1,468,210</u>	<u>-</u>	<u>1,468,210</u>
31 December 2021			
Financial assets			
Cash and cash equivalents	3,264,764	-	3,264,764
Trade and other receivables	39,680	-	39,680
Total financial assets	<u>3,304,444</u>	<u>-</u>	<u>3,304,444</u>

Note 21. Financial instruments (continued)

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.

	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Remaining contractual maturities \$
Consolidated - 31 December 2022					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables	-	191,191	-	-	191,191
<i>Interest-bearing - fixed rate</i>					
Lease liability	5.50%	82,400	84,460	101,563	268,423
Total non-derivatives		273,591	84,460	101,563	459,614
Consolidated - 31 December 2021					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables	-	75,184	-	-	75,184
<i>Interest-bearing - fixed rate</i>					
Lease liability	5.50%	82,200	13,733	-	95,933
Total non-derivatives		157,384	13,733	-	171,117

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 22. 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)

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 2022	31 December 2021
	\$	\$
Short-term employee benefits	645,925	697,470
Post-employment benefits	54,040	56,560
Long-term benefits	17,664	8,503
Share-based payments	152,614	445,757
	<u>870,243</u>	<u>1,208,290</u>

Note 23. 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 2022	31 December 2021
	\$	\$
<i>Audit services</i>		
Audit and review of the financial statements	<u>78,280</u>	<u>66,000</u>
<i>Other services - network firms</i>		
Tax compliance	<u>22,500</u>	<u>18,500</u>

Note 24. Contingent asset and liabilities

The Consolidated Entity provided bank guarantees in the form of term deposits totalling \$85,730 (31 December 2021: \$85,730) as security for the corporate credit card facility and lease at its principal place of business.

The Directors are not aware any other contingent assets or contingent liabilities as at 31 December 2022 (31 December 2021: Nil).

Note 25. Commitments

The Consolidated Entity does not have any commitments at 31 December 2022 (31 December 2021: Nil).

Note 26. Related party transactions

Parent entity

Avecho Biotechnology Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 22 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 27. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	Parent
	31 December 2022	31 December 2021
	\$	\$
Loss after income tax	(2,486,505)	(732,363)
Total comprehensive income	(2,486,505)	(732,363)

Statement of financial position

	Parent	Parent
	31 December 2022	31 December 2021
	\$	\$
Total current assets	1,715,241	3,891,650
Total assets	2,183,353	4,227,865
Total current liabilities	745,504	695,656
Total liabilities	920,656	709,359
Equity		
Issued capital	237,528,799	237,601,871
Other equity-settled benefits	100,500	305,323
Foreign currency reserve	24,626	24,626
Employee equity-settled benefits reserve	1,062,429	859,161
Accumulated losses	(237,453,657)	(235,272,475)
Total equity	1,262,697	3,518,506

Note 27. Parent entity information (continued)

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 2022 (31 December 2021: Nil).

Contingent liabilities

The parent entity had no contingent liabilities as 31 December 2022 (31 December 2021: Nil).

Capital commitments - plant and equipment

The parent entity had no capital commitments for plant and equipment as at 31 December 2022 (31 December 2021: Nil).

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Consolidated Entity, as disclosed in note 2, 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 28. 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 2022 %	31 December 2021 %
Vital Health Sciences Pty Ltd	Australia	100%	100%
Phosphagenics Inc. *	USA	100%	100%
Avecho Inc.	USA	100%	-

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

Note 29. Events after the reporting period

No matter or circumstance has arisen since 31 December 2022 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 30. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	Consolidated
	31 December 2022	31 December 2021
	\$	\$
Loss after income tax expense for the year	(2,342,391)	(3,416,116)
Adjustments for:		
Depreciation and amortisation	230,351	428,594
Share-based payments	203,268	532,486
Allowance for expected credit losses and debts written off	(23,887)	47,298
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	404,771	(671,649)
Increase in inventories	(205,247)	(96,726)
(Increase)/decrease in other current assets	(15,762)	(3,950)
Increase in trade and other payables	25,835	33,825
(Decrease)/Increase in provisions	57,855	47,564
Net cash used in operating activities	<u>(1,665,207)</u>	<u>(3,098,674)</u>

Note 31. Earnings per share

	Consolidated	Consolidated
	31 December 2022	31 December 2021
	\$	\$
Loss after income tax attributable to the owners of Avecho Biotechnology Limited	<u>(2,342,391)</u>	<u>(3,416,116)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>1,837,784,896</u>	<u>1,802,268,920</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,837,784,896</u>	<u>1,802,268,920</u>
	Cents	Cents
Basic earnings per share	(0.13)	(0.19)
Diluted earnings per share	(0.13)	(0.19)

As at 31 December 2022, the Consolidated Entity has 220,344,268 unquoted options (31 December 2021:220,344,268), 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 share 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 32. 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).

On 10 February 2021, the Company issued 7,500,000 Options at an exercise price of \$0.035 each, expiring on 31 December 2023. These options were issued as compensation to 10 Bolivianos Pty Ltd, nominee of Co-Peak Corporate Pty Ltd, as the Lead Manager for the capital raising services.

Set out below are summaries of options granted under the plan:

31 December 2022

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Expired	Balance at the end of the year
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
			97,844,268	-	-	97,844,268
Weighted average exercise price		\$0.017	\$0.017	\$0.000	\$0.000	\$0.017

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

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.

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

Note 32. Share-based payments (continued)

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
Issue of shares as short term incentive	-	25,440
Unlisted options to Executives and employees	177,285	392,590
Unlisted options to Directors	25,983	139,895
	<u>203,268</u>	<u>557,925</u>

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 2 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 2022 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

15 March 2023

Grant Thornton Audit Pty Ltd

Level 22 Tower 5
Collins Square
727 Collins Street
Melbourne VIC 3008
GPO Box 4736
Melbourne VIC 3001
T +61 3 8320 2222

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 2022, 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 2022 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.

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Material uncertainty related to going concern

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred a net loss of \$2,342,391 and net operating cash outflow of \$1,665,207 during the year ended 31 December 2022. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, 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.

In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Research and development (R&D) tax incentive (Note 3 & 6)	
<p>Under the Research and Development (R&D) Tax Incentive scheme, the Group receives a corporate tax rate plus 18.5% 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.</p> <p>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.</p> <p>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.</p> <p>This area is a key audit matter due to the judgements and estimates associated with the analysis.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none">• obtaining the FY22 R&D Rebate calculations prepared by management and performed the following audit procedures:<ul style="list-style-type: none">- verifying that management is qualified to perform the calculation;- 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 the claims; and• reviewed the 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 2022, 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: http://www.auasb.gov.au/auditors_responsibilities/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 2022.

In our opinion, the Remuneration Report of Avecho Biotechnology Limited, for the year ended 31 December 2022 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, 15 March 2023

Avecho Biotechnology Limited ACN 056 482 403

Registered Office

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 23 May 2023. 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 30 March 2023. Any nominations must be received in writing no later than 5.00pm (Melbourne time) on 30 March 2023, 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 2022 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 23 February 2023.

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	464	113,363	0.01
1,001 to 5,000	867	2,625,600	0.14
5,001 to 10,000	608	4,794,264	0.26
10,001 to 100,000	2,344	98,616,433	5.37
100,001 and over	1,329	1,731,719,684	94.22
	5,612	1,837,869,344	100.00
Holding less than a marketable parcel	3,455	45,800,199	2.49
	Number of holders of quoted options	Number of quoted options	% of quoted options
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	106	6,188,060	5.05
100,001 and over	96	116,255,022	94.95
	203	122,443,182	100.00
	Number of holders of unquoted options	Number of unquoted options	% of unquoted options
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>	181,979,391	9.90
2. HSBC Custody Nominees (Australia) Limited	104,651,014	5.69
3. Rosscope Pty Ltd <Ross Copeland Family A/C>	85,513,129	4.65
4. Mr Mark Gregory Kerr <Lindmark Inv Staff S/F A/C>	67,153,797	3.65
5. Melbourne Securities Corporation Limited <Horizon 3 Biotech Fund A/C>	59,345,624	3.23
6. BNP Paribas Noms Pty Ltd <DRP>	39,500,198	2.15
7. Servbond Pty Limited <Servbond Pty Ltd S/F A/C>	25,000,000	1.36
8. Citicorp Nominees Pty Limited	22,817,772	1.24
9. FF Okram Pty Ltd <FF Okram 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	18,462,500	1.00
13. Mr Ross Graham Copeland + Mrs Gina Susan Copeland <Publicity Press Super A/C>	16,912,918	0.92
14. Mr Yong Wang	16,515,349	0.90
15. Mrs Susan Margaret Chudleigh + Mr John West Chudleigh	16,000,000	0.87
16. Dr Maurice Arthur Trehwella + Mrs Elizabeth Trehwella <Simpetejen Super Fund A/C>	16,000,000	0.87
17. BHL Pension Pty Ltd <BHL Pension Fund A/C>	15,000,000	0.82
18. Mr Gary Dean Shaw	15,000,000	0.82
19. Mr Brandon Armon Batagol	13,932,870	0.76
20. 10 Bolivianos Pty Ltd	13,313,391	0.72
	<u>787,092,812</u>	<u>42.83</u>

Quoted options over
ordinary shares

	Number held	% of total quoted options issued
1. Melbourne Securities Corporation Limited (Horizon 3 Biotech Fund A/C)	22,727,273	18.56
2. Mr Mark Gregory Kerr + Mrs Linda Marie Kerr (Linkmark Inv Staff S/F A/C)	13,636,365	11.14
3. HSBC Custody Nominees (Australia) Limited	8,999,999	7.35
4. Rosscope Pty Ltd (Ross Copeland Family A/C)	6,668,363	5.45
5. Mr Daniel Aaron Hylton Tuckett	5,295,592	4.32
6. Australian Travel Directory (Aust) Pty Ltd	5,100,000	4.17
7. Zico Investments Pty Ltd	5,000,000	4.08
8. Mrs Susan Margaret Chudleigh + Mr John West Chudleigh	4,000,000	3.27
9. Churchcourt Pty Limited	3,000,000	2.45
9. Mr Yong Wang	3,000,000	2.45
11. Bagbo Pty Ltd	2,909,091	2.38
12. Mr Tony Domenic Amato <The Amato Group S/F A/C>	2,000,000	1.63
12. Mr Jean Luc Raud	2,000,000	1.63
14. Mr Dale Broughton Milton	1,774,918	1.45
15. Mr James Kerr	1,500,000	1.23
16. Mr Domenico Tony Amato	1,450,000	1.18
17. Mr Brandon Armon Batagol	1,313,637	1.07
18. Dr Chris William Hutchison	1,300,000	1.06
19. Mr Tony Domenic Amato	1,136,364	0.93
20. Mr Benoit Broustal	1,000,000	0.82
20. Memoglen Pty Ltd	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
	97,811,602	79.88

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 above unquoted options were issued under the Company's Equity Incentive Plan.

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares Number held
Mark Gregory Kerr	199,503,526*
<i>*as reported in the last Form 604 lodged on the ASX.</i>	

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.