

1. Company details

Name of entity:	Avecho Biotechnology Limited
ABN:	32 056 482 403
Reporting period:	For the period ended 30 June 2021
Previous period:	For the period ended 30 June 2020

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	35.0% to	265,898
Loss from ordinary activities after tax attributable to the owners of Avecho Biotechnology Limited	up	99.1% to	(1,737,551)
Loss for the period attributable to the owners of Avecho Biotechnology Limited	up	99.1% to	(1,737,551)

Comments

The loss for the Consolidated Entity after providing for income tax amounted to \$ 1,737,551 (30 June 2020: loss of \$872,487). The losses during the period were consistent with the Consolidate Entity's operations, which was primarily concentrated on the development of pharmaceutical CBD soft-gel product.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.31</u>	<u>0.21</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit status

The financial statements were subject to a review by the auditors and the review report is attached as part of the Half Year Report.

11. Attachments

Details of attachments (if any):

The Half Year Report of Avecho Biotechnology Limited for the period ended 30 June 2021 is attached.

12. Signed

Signed



Dr Greg Collier
Chairman

Date: 23 August 2021

Avecho Biotechnology Limited

ABN 32 056 482 403

Half Year Report - 30 June 2021

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Directors	Dr Greg Collier (Non-Executive 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	Unit A8, 2A Westall Road Clayton VIC 3168 Australia
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 at the end of, or during, the period ended 30 June 2021.

Directors

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

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

Principal activities

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

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

Review of operations

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

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

Avecho's leading prototype CBD oil formulation was adapted and refined to a soft-gel capsule by Catalent, a leading global provider of advanced drug delivery technologies, development, and manufacturing solutions. The refinements were designed to ensure the formulations are appropriate for inclusion in commercial capsule manufacturing lines, are compatible with candidate gelatin capsules, and most importantly, have appropriate physical and chemical stability. Commercially appropriate stability is critical given the Company's intention to register the finished product with the TGA. The formulation development work was completed in May, at a dose of 75 mg of CBD per soft-gel capsule.

Having finalized the product composition, the manufacturing campaign to produce GMP product for use in the Company's current clinical trial program began. An initial pilot batch of CBD soft-gels was successfully manufactured in May 2021. This batch was used to validate the manufacturing process and analytical methods, as well as to inform the finished product specifications. Successful characterization of the prototype batch will allow formal GMP manufacture of the CBD soft-gel which will be used for formal stability and the planned human clinical trial campaign. This formal GMP manufacturing campaign will begin in July / August 2021 to produce material for use in the Company's upcoming Phase I clinical trial.

Independent of Avecho's cannabinoid program, external licensing discussions for the non-cannabinoid programs continued though out the period. In May 2021, Avecho announced that one of its potential partners in the animal health space, AB Vista, were expanding their assessment of the utility of TPM® in livestock feeds beyond its original program analysing feed efficiency and weight gain. AB Vista are now planning to examine the application of TPM® in feed products being developed to control post-weaning diarrhoea in pigs, and pending a positive outcome of the planned programme they are undertaking, will look to partner with Avecho to bring TPM® to the animal feed market. Licensing opportunities for a number of Avecho's human health products are still under review by third parties in the pharmaceutical space, and involve a range of territories.

Review of financial results

The loss for the Consolidated Entity after providing for income tax amounted to \$1,737,551 (30 June 2020: loss of \$872,487).

Total revenue during the period was increased by \$68,909 (35%) to \$265,898 (2020: \$196,989), driven by sales of Vital ET® and TPM® products.

Income from government grants have increased by \$60,332 to \$453,201 (2020: \$392,869). However, overall increase in expenses outweighed the gains made on total revenue and other income.

- Research and development expenses increased by \$461,021 to \$573,921 (2020: \$112,900), driven by the development of pharmaceutical CBD soft-gel product.
- Employment expenses increasing by \$177,677 to \$870,933 (2020: \$693,256) largely attributable to the share based payment expenses of \$302,053 (2020: \$120,000).
- Corporate and other expenses increased by \$136,528 to \$668,054 (2020: \$531,526). The Consolidated Entity incurred additional insurance premium costs due to the research and development work currently being undertaken. In addition, the ASX listing and investor relationship expenses increased considerable during the current period due to capital raising in February 2021.

As at 30 June 2021, the Consolidated Entity held \$4,753,805 in cash and cash equivalents (31 December 2020: \$1,872,776). The net assets of the Consolidated Entity increased by \$3,297,802 to \$5,952,222 as at 30 June 2021 (31 December 2020: \$2,654,420). Working capital, being current assets less current liabilities, was \$5,530,052 (31 December 2020: \$2,087,020).

The net operating cash outflow for the period was \$1,789,227 (2020: outflow \$806,569) and the Company received \$4,765,800 net of transaction costs from the capital raising completed during the period.

Significant changes in the state of affairs

On 16 February 2021, the Consolidated Entity has issued a total of 229,999,999 Fully Paid Ordinary Shares (Shares) at an issue price of \$0.022 (2.2 cents) to institutional and sophisticated investors raising \$4,765,800 net of transaction costs.

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

Matters subsequent to the end of the financial period

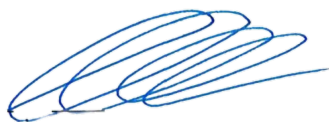
On 1 July 2021, the Company has issued a total of 7,221,847 Fully Paid Ordinary Shares (Shares) for nil consideration following the vesting of 7,221,847 unlisted Performance Rights.

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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Dr Greg Collier
Chairman

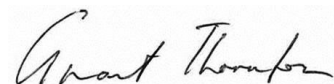
23 August 2021

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 review of Avecho Biotechnology Limited for the period ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 23 August 2021

		Consolidated	
	Note	30 June 2021	30 June 2020
		\$	\$
Revenue from contracts with customers	5	265,898	196,989
Cost of sales		(96,349)	(44,671)
Other income	6	459,458	615,675
Employee and directors benefits expenses	7	(870,933)	(693,256)
Legal expenses		(10,357)	(11,510)
Research expenses		(573,921)	(112,900)
Consultancy and professional fees		(226,089)	(194,654)
Amortisation and depreciation		(237,644)	(288,084)
Corporate and other expenses	8	(441,965)	(336,872)
Finance costs		(5,649)	(3,204)
Loss before income tax expense		(1,737,551)	(872,487)
Income tax expense		-	-
Loss after income tax expense for the period attributable to the owners of Avecho Biotechnology Limited		(1,737,551)	(872,487)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		-	2
Other comprehensive income for the period, net of tax		-	2
Total comprehensive income for the period attributable to the owners of Avecho Biotechnology Limited		(1,737,551)	(872,485)
		Cents	Cents
Basic earnings per share	15	(0.10)	(0.06)
Diluted earnings per share	15	(0.10)	(0.06)

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

		Consolidated	
		31 December	
	Note	30 June 2021	2020
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		4,753,805	1,872,776
Trade and other receivables	9	1,127,781	479,115
Inventories		164,382	100,006
Other current assets		74,339	238,704
Total current assets		<u>6,120,307</u>	<u>2,690,601</u>
Non-current assets			
Plant and equipment		113,097	67,912
Right-of-use assets		126,982	165,076
Intangibles	10	<u>243,000</u>	<u>431,000</u>
Total non-current assets		<u>483,079</u>	<u>663,988</u>
Total assets		<u>6,603,386</u>	<u>3,354,589</u>
Liabilities			
Current liabilities			
Trade and other payables		196,438	241,192
Lease liabilities		81,000	73,031
Provisions		<u>312,817</u>	<u>289,358</u>
Total current liabilities		<u>590,255</u>	<u>603,581</u>
Non-current liabilities			
Lease liabilities		50,012	93,200
Provisions		<u>10,897</u>	<u>3,388</u>
Total non-current liabilities		<u>60,909</u>	<u>96,588</u>
Total liabilities		<u>651,164</u>	<u>700,169</u>
Net assets		<u>5,952,222</u>	<u>2,654,420</u>
Equity			
Issued capital	11	237,544,095	232,778,295
Reserves	12	28,806,824	28,537,271
Accumulated losses		<u>(260,398,697)</u>	<u>(258,661,146)</u>
Total equity		<u>5,952,222</u>	<u>2,654,420</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 2020	232,632,424	28,152,820	(256,026,293)	4,758,951
Loss after income tax expense for the period	-	-	(872,487)	(872,487)
Other comprehensive income for the period, net of tax	-	2	-	2
Total comprehensive income for the period	-	2	(872,487)	(872,485)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of shares as sign-on bonus	120,000	-	-	120,000
Balance at 30 June 2020	<u>232,752,424</u>	<u>28,152,822</u>	<u>(256,898,780)</u>	<u>4,006,466</u>
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 period	-	-	(1,737,551)	(1,737,551)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	(1,737,551)	(1,737,551)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 16)	-	269,553	-	269,553
Issue of share capital (note 11)	5,060,000	-	-	5,060,000
Transaction costs	(294,200)	-	-	(294,200)
Balance at 30 June 2021	<u>237,544,095</u>	<u>28,806,824</u>	<u>(260,398,697)</u>	<u>5,952,222</u>

	Consolidated	
Note	30 June 2021	30 June 2020
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	58,273	195,791
Receipt of government grants	-	114,072
Other receipts	-	33,000
Payments to suppliers and employees (inclusive of GST)	<u>(1,847,500)</u>	<u>(1,149,432)</u>
Net cash used in operating activities	<u>(1,789,227)</u>	<u>(806,569)</u>
Cash flows from investing activities		
Interest received	298	605
Payments for plant and equipment	<u>(56,735)</u>	<u>-</u>
Net cash from/(used in) investing activities	<u>(56,437)</u>	<u>605</u>
Cash flows from financing activities		
Proceeds from issue of shares	11 5,060,000	-
Cost of issue of shares net of GST	(294,200)	-
Principle and interest element of lease payments	<u>(39,107)</u>	<u>(45,713)</u>
Net cash from/(used in) financing activities	<u>4,726,693</u>	<u>(45,713)</u>
Net increase/(decrease) in cash and cash equivalents	2,881,029	(851,677)
Cash and cash equivalents at the beginning of the financial period	1,872,776	3,210,539
Effects of exchange rate changes on cash and cash equivalents	<u>-</u>	<u>189,256</u>
Cash and cash equivalents at the end of the financial period	<u><u>4,753,805</u></u>	<u><u>2,548,118</u></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 period. 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. Its registered office and principal place of business is:

Unit A8, 2A Westall Road
Clayton VIC 3168
Australia

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 23 August 2021.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 30 June 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Note 2. Significant accounting policies (continued)

Going concern

The Consolidated Entity has incurred a loss after tax of \$1,737,551 during the half year ended 30 June 2021 (2020: loss of \$872,487), net cash outflows from operations of \$1,789,227 (2020: net outflow of \$806,569) and at 30 June 2021 had cash and cash equivalents of \$4,753,805 (31 December 2020 \$1,872,776).

During the period, the Consolidated Entity completed a successful capital raising amounting to \$5,060,000 (before transaction costs). The Consolidated Entity's trading performance during the period is broadly in line with management's expectations and consistent with current research and development work undertaken. Cash flow forecasts prepared by management indicate that the Consolidated Entity will have sufficient funds to meet commitments over the next twelve months from the date of this report.

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity, the realisation of assets, settlement of liabilities through the normal course of business including the presumption that sufficient funds will be available to finance the operations of the Consolidated Entity. The directors believe the Consolidated Entity has the ability to raise additional capital from existing and new investors should it be required.

The directors plan to continue the Consolidated Entity's operations on the basis as outlined above, and believe sufficient plans are in place to ensure the Consolidated Entity can meet its obligations and liabilities for at least twelve months from the date of this report. Accordingly, the Directors believe the Consolidated Entity will continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

If the Consolidated Entity is unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the Consolidated Entity be unable to continue as a going concern and meet its debts as and when they become due and payable.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the period ended 30 June 2021.

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:

(1) R&D Tax Incentives

From 1 July 2011 the Australian Government has provided a tax incentive, in the form of a refundable tax offset of 43.5%, for eligible research and development expenditure. Management has assessed its research and development activities and expenditure to determine which are likely to be eligible under the scheme. For the period ended 30 June 2021 the Consolidated Entity has recorded an item in other income of \$453,201 (2020: \$258,552) to recognise this amount which relates to this period.

(2) 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. 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.

(3) Estimated impairment of intangibles

The group tests whether intangible assets have suffered any impairment at each reporting date. The recoverable amount of intangible assets is assessed at its value in use. This calculation requires the use of assumptions.

Note 4. Operating segments

Identification of reportable operating segments

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing the performance and in determining the allocation of resources.

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

Production

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

Human Health

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

The division continues to prioritise development work on the two existing opioid patch assets: TPM®/Oxymorphone and TPM®/Oxycodone as well as continue to assess commercial opportunities for TPM® enhanced products delivered as injectables. Revenue is derived from royalty streams, licencing and contract research.

Avecho commenced its initial development of an oral cannabinoid product with enhanced solubility and absorption. Early work undertaken by Avecho and partners demonstrated that TPM® could increase the solubility of cannabinoids, a limitation that leads to poor oral bioavailability, high variability in absorption, and difficulty in developing aqueous dosage forms. Avecho's cannabinoid program will aim to develop a pharmaceutical dosage form and will support the benefits of including TPM® in natural medicinal cannabis extracts. This will open additional licensing opportunities for the use of TPM® in third-party medicinal cannabis products, both in Australia and around the world, including the large North American markets.

All other segments

The Animal Health and Nutrition segment did not meet materiality levels and is included in the other segments with corporate activities, which is a cost center.

Note 4. Operating segments (continued)

Operating segment information

	Production \$	Human Health \$	Other segments \$	Total \$
Consolidated - 30 June 2021				
Sales, Licences and Royalties	265,898	-	-	265,898
Cost of sales	(96,349)	-	-	(96,349)
Income from government subsidy and grants	-	441,188	12,013	453,201
Net foreign exchange gain	5,262	(4,066)	4,766	5,962
Interest revenue	-	-	295	295
Depreciation and amortisation	-	-	(237,644)	(237,644)
Consulting and professional expenses	-	-	(226,089)	(226,089)
Employee and directors benefits expenses	(40,343)	(266,789)	(563,800)	(870,932)
Expenses allocated to inventory	36,985	-	-	36,985
Research expenses	(18,279)	(536,576)	(19,066)	(573,921)
Other operating expenses from continuing operations	(2,215)	(3,833)	(488,909)	(494,957)
Profit/(loss) before income tax expense	150,959	(370,076)	(1,518,434)	(1,737,551)
Income tax expense				-
Loss after income tax expense				(1,737,551)
Assets				
Segment assets	387,293	872,031	5,344,062	6,603,386
Total assets				6,603,386
Liabilities				
Segment liabilities	-	-	651,164	651,164
Total liabilities				651,164
Consolidated - 30 June 2020				
Sales, Licences and Royalties	196,989	-	-	196,989
Cost of sales	(44,671)	-	-	(44,671)
Income from government subsidy and grants	-	172,221	220,648	392,869
Other Income	-	-	30,000	30,000
Net foreign exchange gain	317	2,247	189,904	192,468
Interest revenue	-	-	338	338
Depreciation and amortisation	-	-	(288,084)	(288,084)
Consulting and professional expenses	(6,200)	(3,141)	(222,931)	(232,272)
Employee and directors benefits expenses	(67,069)	(199,880)	(426,307)	(693,256)
Expenses allocated to inventory	18,468	-	-	18,468
Research expenses	(38,615)	(26,328)	(10,339)	(75,282)
Other operating expenses from continuing operations	(1,695)	(2,236)	(366,123)	(370,054)
Profit/(loss) before income tax expense	57,524	(57,117)	(872,894)	(872,487)
Income tax expense				-
Loss after income tax expense				(872,487)
Consolidated - 31 December 2020				
Assets				
Segment assets	144,639	-	4,364,628	4,509,267
Total assets				4,509,267
Liabilities				
Segment liabilities	-	-	502,801	502,801
Total liabilities				502,801

Note 5. Revenue from contracts with customers

	Consolidated	
	30 June 2021	30 June 2020
	\$	\$
Sale of goods	250,857	192,373
Royalties	15,041	4,616
Revenue from contracts with customers	<u>265,898</u>	<u>196,989</u>

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	30 June 2021	30 June 2020
	\$	\$
<i>Major product lines</i>		
TPM®	37,500	18,761
Vital ET®	213,357	173,612
Royalty fees	15,041	4,616
	<u>265,898</u>	<u>196,989</u>

Note 6. Other income

	Consolidated	
	30 June 2021	30 June 2020
	\$	\$
Net foreign exchange gain	5,959	192,468
Income from government grants	453,201	392,869
Interest income	298	338
Project income	-	30,000
	<u>459,458</u>	<u>615,675</u>

Note 7. Employee and directors benefits expenses

	Consolidated	
	30 June 2021	30 June 2020
	\$	\$
Director fees and associated benefits	131,083	153,906
Research and development employee expenses	268,412	202,002
Employee salaries and associated benefit expenses	201,885	217,348
Share based payments	269,553	120,000
	<u>870,933</u>	<u>693,256</u>

Note 8. Corporate and other expenses

	Consolidated 30 June 2021	30 June 2020
	\$	\$
Travel	(2,073)	2,485
Insurance	136,475	81,915
Shareholder and ASX listing expenses	136,353	50,109
Patent portfolio expenses	80,888	154,654
Occupancy expenses	42,561	30,797
IT expense	43,866	19,489
Expenses allocated to inventory	(36,985)	(18,468)
Other expenses	20,793	15,891
Doubtful debt	20,087	-
	<u>441,965</u>	<u>336,872</u>

Note 9. Current assets - trade and other receivables

	Consolidated 30 June 2021	31 December 2020
	\$	\$
Trade receivables net of allowance for expected credit losses	<u>222,911</u>	<u>37,189</u>
R&D tax incentive credit receivable	872,031	418,830
Other financial assets at amortised cost	<u>32,839</u>	<u>23,096</u>
	<u>904,870</u>	<u>441,926</u>
	<u>1,127,781</u>	<u>479,115</u>

Allowance for expected credit losses

An allowance for expected credit loss is recognised when there is objective evidence that the group 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. Debts totalling \$27,860 (2020: Nil) were deemed impaired at 30 June 2021.

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

Note 10. Non-current assets - intangibles

	Consolidated 30 June 2021	31 December 2020
	\$	\$
Intellectual property	125,262,000	121,362,000
Less: Accumulated amortisation and impairment	<u>(125,019,000)</u>	<u>(120,931,000)</u>
	<u>243,000</u>	<u>431,000</u>

Note 10. Non-current assets - intangibles (continued)

Reconciliations

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

	Intellectual property \$	Total \$
Consolidated		
Balance at 1 January 2021	431,000	431,000
Amortisation expense	(188,000)	(188,000)
Balance at 30 June 2021	<u>243,000</u>	<u>243,000</u>

The carrying value of the acquired patents is dependent on the continued sales of Vital ET® and the commercialisation of TPM®/Oxycodone prior to the expiry of the patents. Revenue assumptions related to the patents were reassessed 30 June 2021, with no impairment impacting the value of the assets.

Note 11. Equity - issued capital

	30 June 2021 Shares	Consolidated 31 December 2020 Shares	30 June 2021 \$	31 December 2020 \$
Ordinary shares - fully paid	<u>1,828,894,679</u>	<u>1,598,894,680</u>	<u>237,544,095</u>	<u>232,778,295</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 January 2021	1,598,894,680		232,778,295
Issue of shares	17 February 2021	229,999,999	\$0.022	5,060,000
Cost of issue		-	\$0.000	(294,200)
Balance	30 June 2021	<u>1,828,894,679</u>		<u>237,544,095</u>

Note 12. Equity - reserves

	Consolidated 30 June 2021 \$	31 December 2020 \$
Business combination reserve	27,812,871	27,812,871
Other equity-settled benefits	305,323	305,323
Foreign currency reserve	24,626	24,626
Employee equity-settled benefits reserve	<u>664,004</u>	<u>394,451</u>
	<u>28,806,824</u>	<u>28,537,271</u>

Foreign currency reserve

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

Business combinations reserve

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

Note 12. Equity - reserves (continued)

Other equity-settled benefits reserve

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

Employee share option and share plan reserve

The reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. For further details refer to note 16 in the Financial Statements.

Note 13. Contingent asset and liabilities

There were no contingent asset and liabilities for the period ended 30 June 2021.

Note 14. Events after the reporting period

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

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Note 15. Earnings per share

	Consolidated	
	30 June 2021	30 June 2020
	\$	\$
Loss after income tax attributable to the owners of Avecho Biotechnology Limited	<u>(1,737,551)</u>	<u>(872,487)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>1,769,170,922</u>	<u>1,584,600,277</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,769,170,922</u>	<u>1,584,600,277</u>
	Cents	Cents
Basic earnings per share	(0.10)	(0.06)
Diluted earnings per share	(0.10)	(0.06)

There are no instruments (e.g. share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future. There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

Note 16. Share-based payments

The Group 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 there are two variations:

Note 16. Share-based payments (continued)

- In May 2017 shareholders approved the award of non-performance based options (EIP 2017 Options) to directors, where under the terms of the EIP, the strike price is the same as the employee options at \$0.023 and further one-third of the options vest each September of 2017, 2018 and 2019, with the sole vesting condition that the director remains in office at that vesting date. In May 2017 shareholders approved the award of non-performance based options (EIP 2017 Options) to directors, where under the terms of the EIP, the strike price is the same as the employee options at \$0.023 and further one-third of the options vest each September of 2017, 2018 and 2019, with the sole vesting condition that the director remains in office at that vesting date.
- On 18 August 2020, the Company issued 7,221,847 unlisted performance rights to a consultant for nil consideration. Each performance right is a right to acquire one fully paid share, subject to the satisfaction of vesting conditions.
- 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. \$302,053 of share-based payment expense was recorded in relation to these options for the half-year ended 30 June 2021.
- The Directors had also been offered 13,977,753 Options at the same 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 commencement date of these options were deemed to be 20 November 2020. At the approval date these options were re-measured using the Binomial option pricing model.

All options granted to key management personnel have been issued in accordance with the provisions of the Equity Incentive Plan (EIP).

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

30 June 2021

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
31/05/2017	09/09/2021	\$0.000	3,750,000	-	-	-	3,750,000
20/11/2020	20/05/2024	\$0.017	83,866,515	-	-	-	83,866,515
28/05/2021	20/05/2024	\$0.017	-	13,977,753	-	-	13,977,753
			<u>87,616,515</u>	<u>13,977,753</u>	<u>-</u>	<u>-</u>	<u>101,594,268</u>

30 June 2020

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
31/05/2017	09/09/2021	\$0.000	3,750,000	-	-	-	3,750,000
			<u>3,750,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,750,000</u>

Option pricing model

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

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

Note 16. Share-based payments (continued)

	2021	2020	2016
Model Inputs	Director options	Executives and Employee Options	Director Options
Dividend yield %	0.0%	0.0%	0.0%
Expected volatility %	194%	188%	60%
Risk-free interest rate %	0.10%	0.11%	1.76%
Option life (years)	2.98 years	3.5 years	4.28 years
Option Exercise price \$	\$0.017	\$0.017	\$0.023

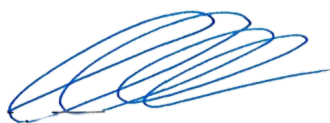
The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Consolidated Entity's financial position as at 30 June 2021 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Dr Greg Collier
Chairman

23 August 2021

Independent Auditor's Report

To the Members of Avecho Biotechnology Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Avecho Biotechnology Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, and 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Avecho Biotechnology Limited does not give a true and fair view of the financial position of the Group as at 30 June 2021, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company 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 audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' responsibility for the half year financial report

The Directors of the Company are responsible for the preparation of the half year 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 half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2021 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Avecho Biotechnology Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 23 August 2021