

1. Company details

Name of entity:	Avecho Biotechnology Limited
ABN:	32 056 482 403
Reporting period:	For the period ended 30 June 2023
Previous period:	For the period ended 30 June 2022

2. Results for announcement to the market

			\$
Revenues from ordinary activities	down	41.1% to	446,439
Loss from ordinary activities after tax attributable to the owners of Avecho Biotechnology Limited	up	173.6% to	(2,127,514)
Loss for the period attributable to the owners of Avecho Biotechnology Limited	up	173.6% to	(2,127,514)

Comments

Total revenue decreased by 41% for the period to \$446,439 (30 June 2022: \$758,239), mainly attributable to a decrease in Vital ET® sales made to Ashland during the period.

Research and development tax incentive and other income increased by 32% to \$402,853 (Half-year to 30 June 2022: \$306,346), largely attributed to higher R&D tax incentives of \$379,986 (Half-year to 30 June 2022: \$254,032).

Expenses from continuing operations increased by 74% to \$2,848,496 (Half-year to 30 June 2022: \$1,641,162), largely due to higher research and development cost of \$1,111,026 (Half-year to 30 June 2022: \$476,166) and administrative expenses of \$1,729,901 (30 June 2022: \$1,161,335). Overall increase in the research and development activities compared to the 2022 financial period was as the Company moved into Phase-III trial designed to test the Company's proprietary CBD soft-gel capsule for the treatment of insomnia during the period.

At 30 June 2023, the Consolidated Entity held \$2,868,346 in cash and cash equivalents (31 December 2022: \$1,468,210).

The net assets of the Consolidated Entity decreased by \$230,038 to \$2,194,858 as at Half-year to 30 June 2023 (31 December 2022: \$2,424,896). Working capital, being current assets less current liabilities, was a surplus of \$1,942,241 (31 December 2022: \$2,105,685).

The net operating cash outflow for the period was \$400,397 (30 June 2022: outflow \$47,598).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.10</u>	<u>0.13</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 2023 is attached.

12. Signed

Signed  _____

Dr Gregory Collier
Chairman

Date: 31 August 2023

For personal use only

Avecho Biotechnology Limited

ABN 32 056 482 403

Half Year Report - 30 June 2023

For personal use only

Corporate directory	2
Directors' report	3
Auditor's independence declaration	6
Consolidated statement of profit or loss and other comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flows	10
Notes to the consolidated financial statements	11
Directors' declaration	18
Independent auditor's review report to the members of Avecho Biotechnology Limited	19

For personal use only

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

For personal use only

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 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 2023.

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 (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.

Review of operations

Capital raising to fund Phase III Clinical Trial for CBD Soft-Gel Capsule

On 10 May 2023, Avecho completed a non-renounceable entitlement offer of one (1) fully paid ordinary share (New Share) for every 1 existing share held by eligible shareholders at an issue price of \$0.006 per Share, raising an amount of approximately \$2 million.

Subsequent to the period ended, on the 28 August 2023, Avecho announced it had received firm commitments from sophisticated and institutional investors to raise \$6 million by way of a placement, which is expected to be completed in two separate tranches;

- Tranche 1 will be for 536,803,333 fully paid ordinary shares at an issue price of \$0.006 per Share to raise approximately \$3.22 million (before transaction costs), which is expected to be completed on or about 1 September 2023; and
- Tranche 2 to raise approximately \$2.82 million (before transaction costs), will be subject to shareholder approval at a general meeting, currently expected to be held in or around October 2023 (indicative date subject to change).

Avecho commences CBD soft-gel manufacturing for pivotal Phase III Clinical Trial

At the conclusion of the Entitlement Offer, Avecho commenced manufacturing activities to support its pivotal Phase III Clinical Trial with a US-based Contract Manufacturing Organisation ("CMO"), Procaps Group.

Procaps Group (NASDAQ: PROC) is a reputable developer of pharmaceutical and nutraceutical solutions, medicines, and hospital supplies across 50 countries globally. Procaps Group has experience in the manufacture of pharmaceutical cannabinoid products and is currently manufacturing US Food and Drug Administration ("FDA") approved dronabinol synthetic tetrahydrocannabinol ("THC") capsules for sale in the USA.

Work undertaken by Procaps Group will include the manufacture of three registration batches of Avecho's CBD capsule. These batches will be placed on formal stability studies to define shelf life of the commercial product. Initial batches of the CBD soft-gel capsule have now successfully passed a two-year stability milestone, indicating it meets pharmaceutical standards. Documentation from these batches is a key component of the registration package to be submitted to regulatory agencies such as the TGA and FDA.

Clinical supply from the Procaps Group will be available in Q3 2023.

TPM business development agreements

In December 2022, Avecho announced a development agreement with NYSE-listed global consumer packaged goods business Perrigo Company plc (NYSE: PRGO), in a deal that will focus on development of a topical TPM®-enhanced ibuprofen gel for the US market. Perrigo is planning to conduct a clinical trial in a pain-related indication using the ibuprofen TPM® gel in 2023. Avecho is managing the manufacture of the Ibuprofen TPM® product in Australia using a third party GMP contract manufacturer.

In January 2023, Avecho announced that New York-based global biopharmaceutical company Athenex had submitted Avecho's TPM®-enhanced phytonadione injectable product to the FDA for feedback via a pre-IND meeting request. Formal FDA feedback stated that the existing toxicology package demonstrating the safety of TPM appeared sufficient to support the use of the TPM in a phytonadione injection – although toxicology reports would need to be examined in more detail to confirm adequacy upon submission of an IND application. Injectable products maker, Sagent Pharmaceuticals, purchased Athenex's injectable assets in June after Athenex attempted to spin-out their injectable business. Once the acquisition is formally concluded, Avecho will determine whether the TPM injectable phytonadione asset remains of interest to Sagent.

In February 2023, Avecho announced its collaboration with the Lambert Initiative would expand beyond the topical cannabinoid products. While Avecho focuses its efforts on its pivotal Phase III clinical trial testing its CBD soft-gel capsule in an insomnia indication, the Lambert Initiative trials will test its oral CBD product on a series of novel candidate indications not previously associated with CBD therapy. These candidate indications have emerged from pre-clinical and early-stage clinical studies conducted by Lambert Initiative researchers and their colleagues, and represent attractive indications for future CBD products registered as over-the-counter (OTC) medicines with the Therapeutic Goods Administration (TGA).

In May 2023, Avecho secured a licensing and development agreement with Arthur Group to produce a series of optimised cancer drugs solubilised using TPM. Under the terms of the agreement, Arthur Group will pay for all formulation, non-clinical and clinical development of the products – and Avecho will receive 30% of revenue from licensing and 30% of net profit from commercialisation of these products.

Expanding cannabinoid portfolio

In June 2023, Avecho announced it has completed the development of first generation TPM gummies containing cannabinoids. Gummies are chewable, jelly-like preparations made from a mixture of glycerin and gelatin and can incorporate a range of medications or nutraceutical ingredients. With the inclusion of edibles, Avecho's current cannabinoid portfolio now contains four different dosage forms with increased absorption – oral oils, oral soft-gel capsules, oral edibles and topical gels.

Review of financial results

The loss for the Consolidated Entity after providing for income tax for period amounted to \$2,127,514 (Half-year to 30 June 2022: loss of \$777,674).

- Total revenue decreased by 41% for the period to \$446,439 (Half-year to 30 June 2022: \$758,239), mainly attributable to a decrease in Vital ET® sales made to Ashland during the period.
- Research and development tax incentive and other income increased by 32% to \$402,853 (Half-year to 30 June 2022: \$306,346), largely attributed to R&D tax incentives of \$379,986 (Half-year to 30 June 2022: \$254,032).
- Expenses from continuing operations increased by 74% to \$2,848,496 (Half-year to 30 June 2022: \$1,641,162), largely due to higher research and development cost of \$1,111,026 (Half-year to 30 June 2022: \$476,166) and administration expenses of \$1,729,901 (30 June 2022: \$1,161,335).

As at 30 June 2023, the Consolidated Entity held \$2,868,346 in cash and cash equivalents (31 December 2022: \$1,468,210). The net assets of the Consolidated Entity decreased by \$230,038 to \$2,194,858 as at 30 June 2023 (31 December 2022: \$2,424,896). Working capital, being current assets less current liabilities, was a surplus of \$1,942,241 (31 December 2022: \$2,105,685).

The net operating cash outflow for the period was \$400,397 (Half-year to 30 June 2022: outflow \$47,598).

Significant changes in the state of affairs

On 9 May 2023 the Company completed non-renounceable entitlement offer of 1 new fully paid ordinary share (New Share) for every 1 existing share held by eligible shareholders at an issue price of \$0.006 per New Share as announced to ASX on 3 April 2023 (Entitlement Offer). Participants in the Entitlement Offer were also entitled to 3 free attaching options, with an exercise price of \$0.012 each and expiring 3 years from their issue date (New Options) for every 2 New Shares subscribed under the Entitlement Offer.

The Entitlement Offer was closed 3 May 2023 with applications were received for 324,289,814 New Shares, raising an amount of approximately \$2 million. On 10 May 2023, the Company completed issuing of 324,289,814 New Shares and 486,434,641 New Options to participating eligible shareholders.

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

Subsequent to the period ended, on the 28 August 2023, the Company announced it had received firm commitments from sophisticated and institutional investors to raise \$6 million by way of a placement ("Placement"). The Placement will be conducted on the same terms as the Company's recent Entitlement Offer announced to ASX on 3 April 2023. The \$6 million Placement will be completed in two separate tranches;

- Tranche 1 will be for approximately 536,803,333 fully paid ordinary shares (subject to rounding) at an issue price of \$0.006 per Share to raise approximately \$3.22 million (before transaction costs), which is expected to be completed on or about 1 September 2023; and
- Tranche 2 to raise approximately \$2.82 million (before transaction costs), will be subject to shareholder approval at a general meeting, currently expected to be held in or around late October 2023 (indicative date subject to change).

Every two new shares issued under the Placement will be accompanied by three free attaching options, exercisable at \$0.012 each, expiring on 10 May 2026.

No other matter or circumstance has arisen since 30 June 2023 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.

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 Gregory Collier
Chairman

31 August 2023

Grant Thornton Audit Pty Ltd

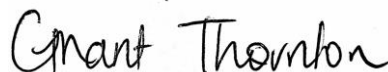
Level 22 Tower 5
Collins Square
727 Collins Street
Melbourne VIC 3008
GPO Box 4736
Melbourne VIC 3001
T +61 3 8320 2222

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 review of Avecho Biotechnology Limited for the half-year ended 30 June 2023, 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



J D Vasiliou
Partner – Audit & Assurance
Melbourne, 31 August 2023

www.grantthornton.com.au
ACN-130 913 594

Grant Thornton Audit Pty Ltd ACN 130 913 594 a subsidiary or related entity of Grant Thornton Australia Limited ABN 41 127 556 389 ACN 127 556 389. 'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Limited is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 ACN 127 556 389 and its Australian subsidiaries and related entities. Liability limited by a scheme approved under Professional Standards Legislation.

		Consolidated	
	Note	Half-year to 30 June 2023 \$	Half-year to 30 June 2022 \$
Revenue from contracts with customers	4	446,439	758,239
Cost of sales		(128,310)	(201,097)
Gross profit		<u>318,129</u>	<u>557,142</u>
Research and development tax incentive and other income	5	402,853	306,346
Research and development expenses	6	(1,111,026)	(476,166)
Administration and corporate expenses	7	(1,729,901)	(1,161,335)
Finance costs		(7,569)	(3,661)
Loss before income tax expense		<u>(2,127,514)</u>	<u>(777,674)</u>
Income tax expense		-	-
Loss after income tax expense for the period attributable to the owners of Avecho Biotechnology Limited		<u>(2,127,514)</u>	<u>(777,674)</u>
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period attributable to the owners of Avecho Biotechnology Limited		<u><u>(2,127,514)</u></u>	<u><u>(777,674)</u></u>
		Cents	Cents
Basic loss per share	12	(0.11)	(0.04)
Diluted loss per share	12	(0.11)	(0.04)

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

For personal use only

		Consolidated	
	Note	30 June 2023	31 December 2022
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,868,346	1,468,210
Trade and other receivables		414,196	745,994
Inventories		135,681	401,979
Prepayments		113,849	235,006
Total current assets		<u>3,532,072</u>	<u>2,851,189</u>
Non-current assets			
Plant and equipment		182,808	222,038
Right-of-use assets		207,219	246,075
Intangibles		-	26,250
Total non-current assets		<u>390,027</u>	<u>494,363</u>
Total assets		<u>3,922,099</u>	<u>3,345,552</u>
Liabilities			
Current liabilities			
Trade and other payables		1,083,995	276,415
Lease liabilities		73,677	70,923
Provisions		432,159	398,166
Total current liabilities		<u>1,589,831</u>	<u>745,504</u>
Non-current liabilities			
Lease liabilities		137,410	175,152
Total non-current liabilities		<u>137,410</u>	<u>175,152</u>
Total liabilities		<u>1,727,241</u>	<u>920,656</u>
Net assets		<u>2,194,858</u>	<u>2,424,896</u>
Equity			
Issued capital	8	239,364,321	237,528,800
Reserves	9	29,062,381	29,000,426
Accumulated losses		<u>(266,231,844)</u>	<u>(264,104,330)</u>
Total equity		<u>2,194,858</u>	<u>2,424,896</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 2022	237,601,871	29,001,981	(262,067,262)	4,536,590
Loss after income tax expense for the period	-	-	(777,674)	(777,674)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive loss for the period	-	-	(777,674)	(777,674)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	25,440	-	-	25,440
Share-based payments	-	92,775	-	92,775
Transfer of other reserve balance	-	(305,323)	305,323	-
Contributions received on exercise of options	-	1,989	-	1,989
Balance at 30 June 2022	<u>237,627,311</u>	<u>28,791,422</u>	<u>(262,539,613)</u>	<u>3,879,120</u>

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2023	237,528,800	29,000,426	(264,104,330)	2,424,896
Loss after income tax expense for the period	-	-	(2,127,514)	(2,127,514)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive loss for the period	-	-	(2,127,514)	(2,127,514)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 8)	1,835,521	-	-	1,835,521
Share-based payments	-	61,955	-	61,955
Balance at 30 June 2023	<u>239,364,321</u>	<u>29,062,381</u>	<u>(266,231,844)</u>	<u>2,194,858</u>

For personal use only

Note	Consolidated	
	Half-year to 30 June 2023 \$	Half-year to 30 June 2022 \$
Cash flows from operating activities		
	709,751	763,654
Receipts from customers (inclusive of GST)	687,288	1,028,323
Receipt of government grants and subsidy	(1,796,153)	(1,838,702)
Payments to suppliers and employees (inclusive of GST)		
	(399,114)	(46,725)
Interest received	4,930	299
Interest and other finance costs paid	(6,213)	(1,172)
Net cash used in operating activities	(400,397)	(47,598)
Cash flows from investing activities		
	-	(48,124)
Payments for plant and equipment		
Net cash used in investing activities	-	(48,124)
Cash flows from financing activities		
	1,945,793	-
Proceeds from issue of shares	(110,272)	-
Share issue transaction costs	(34,988)	(39,829)
Principal and interest element of lease payments		
Net cash from/(used in) financing activities	1,800,533	(39,829)
Net increase/(decrease) in cash and cash equivalents	1,400,136	(135,551)
Cash and cash equivalents at the beginning of the financial period	1,468,210	3,264,764
Cash and cash equivalents at the end of the financial period	2,868,346	3,129,213

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

For personal use only

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 31 August 2023.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2023 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 2022 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 accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Going concern

The 2023 half-year report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realization of assets and the settlement of liabilities in the ordinary course of business.

The working capital position as at 30 June 2023 of the Consolidated Entity was a surplus of \$1,942,241. The Consolidated Entity made a loss after tax of \$2,127,514 and incurred a net operating cash outflows of \$400,397. Cash and cash equivalents as at 30 June 2023 were \$2,868,346. 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, the Vital ET sales with Ashland and accessing additional sources of capital to meet the commitments.

To meet the Consolidated Entity's funding requirements as and when they fall due the Consolidated Entity will need to take appropriate steps, including a combination of:

- Raising capital by one of or a combination of the following: placement of shares, rights issue, share purchase plan, etc;
- Potential debt financing of the R&D tax incentive so the Consolidated Entity can receive the money in advance; and
- Defer certain R&D expenditure to the future to reduce the cash outflows.

On 10 May 2023, the Company has completed non-renounceable entitlement offer raising approximately \$2 million.

Subsequent to the period ended, on the 28 August 2023, the Company announced it had received firm commitments from sophisticated and institutional investors to raise \$6 million by way of a placement ("Placement"). The \$6 million Placement will be completed in two separate tranches;

Note 2. Significant accounting policies (continued)

- Tranche 1 will be for approximately 536,803,333 fully paid ordinary shares (subject to rounding) at an issue price of \$0.006 per Share to raise approximately \$3.22 million (before transaction costs), which is expected to be completed on or about 1 September 2023; and
- Tranche 2 to raise approximately \$2.82 million (before transaction costs), will be subject to shareholder approval at a general meeting, currently expected to be held in or around late October 2023 (indicative date subject to change).

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.

New Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period, which had no impact on the half-year financial report.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 3. 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 segment

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

Human Health segment

The 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.

Note 3. Operating segments (continued)

Operating segment information

	Production \$	Human Health \$	Unallocated \$	Total \$
Consolidated - Half-year to 30 June 2023				
Sales, Licences and Royalties	446,439	-	-	446,439
Cost of sales	(128,310)	-	-	(128,310)
Interest income	-	-	4,930	4,930
Research and development tax incentive and other income	-	379,986	17,937	397,923
Research expenses	-	(812,685)	-	(812,685)
Employee and directors benefits expenses	(30,758)	(303,502)	(354,880)	(689,140)
Other operating expenses from continuing operations	(376,340)	-	(865,994)	(1,242,334)
Depreciation and amortisation	(26,250)	-	(78,087)	(104,337)
Loss before income tax expense	(115,219)	(736,201)	(1,276,094)	(2,127,514)
Income tax expense	-	-	-	-
Loss after income tax expense				(2,127,514)
Assets				
Segment assets	1,016,462	402,031	2,503,606	3,922,099
Total assets				3,922,099
Liabilities				
Segment liabilities	88,318	760,913	878,010	1,727,241
Total liabilities				1,727,241

	Production \$	Human Health \$	Unallocated \$	Total \$
Consolidated - Half-year to 30 June 2022				
Sales, Licences and Royalties	688,976	69,263	-	758,239
Cost of sales	(201,097)	-	-	(201,097)
Interest income	-	-	299	299
Research and development tax incentive and other income	-	254,032	52,015	306,047
Research expenses	-	(303,472)	-	(303,472)
Employee and directors benefits expenses	(46,786)	(212,128)	(450,619)	(709,533)
Other operating expenses from continuing operations	(25,115)	-	(476,745)	(501,860)
Depreciation and amortisation	(49,676)	-	(76,621)	(126,297)
Profit/(loss) before income tax expense	366,302	(192,305)	(951,671)	(777,674)
Income tax expense	-	-	-	-
Loss after income tax expense				(777,674)

Consolidated - 31 December 2022

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

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 \$439,439 are derived from a single external customer group (Half-year to 30 June 2022: \$666,957). These revenues are attributed to the Production segment.

Note 3. Operating segments (continued)

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	
	Half-year to 30 June 2023	Half-year to 30 June 2022	30 June 2023	31 December 2022
	\$	\$	\$	\$
Australia	38,307	16,967	390,027	494,363
Switzerland	401,132	649,990	-	-
India	7,000	22,019	-	-
USA	-	69,263	-	-
	<u>446,439</u>	<u>758,239</u>	<u>390,027</u>	<u>494,363</u>

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

Note 4. Revenue from contracts with customers

	Consolidated	
	Half-year to 30 June 2023	Half-year to 30 June 2022
	\$	\$
From continuing operations		
Sale of goods and services transferred at a point in time	446,439	686,957
Royalties and licence revenue recognised over time	-	71,282
Total revenue from contracts with customers	<u>446,439</u>	<u>758,239</u>

Disaggregation of revenue

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

	Consolidated	
	Half-year to 30 June 2023	Half-year to 30 June 2022
	\$	\$
Major product lines		
TPM®	7,000	20,000
Vital ET®	439,439	666,957
Royalty fees	-	2,019
License fees	-	69,263
	<u>446,439</u>	<u>758,239</u>

Note 5. Research and development tax incentive and other income

	Consolidated	
	Half-year to 30 June 2023	Half-year to 30 June 2022
	\$	\$
Net foreign exchange gain	17,937	31,683
Research and development tax incentive	379,986	254,032
Export Market Development Grants (EMDG)	-	20,332
Interest income	4,930	299
	<u>402,853</u>	<u>306,346</u>

Note 6. Research and development expenses

	Consolidated	
	Half-year to 30 June 2023	Half-year to 30 June 2022
	\$	\$
Clinical development, consultancy and laboratory consumables	824,656	274,971
Employment expenses associated with research and development	286,370	201,195
	<u>1,111,026</u>	<u>476,166</u>

Note 7. Administration and corporate expenses

	Consolidated	
	Half-year to 30 June 2023	Half-year to 30 June 2022
	\$	\$
Director fees	105,250	105,251
Share based payments expenses	61,955	92,775
Salaries and other employee expenses (non - R&D)	235,566	250,676
Provision for impairment of inventory	251,764	-
Insurance expenses	164,693	127,511
Shareholder and listing expenses	110,314	89,721
Patent portfolio expenses	153,626	108,358
Occupancy expenses	25,341	27,184
Allowance for credit losses and uncollectable debtors written-off	28	2,663
Professional and consultancy fees	511,602	219,591
Depreciation of right-of-use assets and plant and equipment	78,087	76,621
Amortisation of intangible assets	26,250	49,676
Other sundry expenses	5,425	11,308
	<u>1,729,901</u>	<u>1,161,335</u>

For personal use only

Note 8. Equity - issued capital

	Consolidated		31 December 2022	31 December 2022
	30 June 2023 Shares	30 June 2023 \$		
Ordinary shares - fully paid	<u>2,162,163,695</u>	<u>1,837,869,344</u>	<u>239,364,321</u>	<u>237,528,800</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 January 2023	1,837,869,344		237,528,800
Share issue through placement	10 May 2023	324,289,814	\$0.006	1,945,739
Share issued on exercise of options	28 June 2023	4,537	\$0.012	54
Share issue costs		-	\$0.000	(110,272)
Balance	30 June 2023	<u>2,162,163,695</u>		<u>239,364,321</u>

Note 9. Equity - reserves

	Consolidated	
	30 June 2023 \$	31 December 2022 \$
Business combination reserve	27,812,871	27,812,871
Other equity-settled benefits	100,500	100,500
Foreign currency reserve	24,626	24,626
Employee equity-settled benefits reserve	<u>1,124,384</u>	<u>1,062,429</u>
	<u>29,062,381</u>	<u>29,000,426</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 prior period business combinations.

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 accordingly recognised at the issue date fair value in the financial statements.

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.

Note 10. Contingent asset and liabilities

The Consolidated Entity provided bank guarantees in the form of term deposits totalling \$85,730 (31 December 2022: \$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 30 June 2023 (31 December 2022: Nil).

Note 11. Events after the reporting period

Subsequent to the period ended, on the 28 August 2023, the Company announced it had received firm commitments from sophisticated and institutional investors to raise \$6 million by way of a placement ("Placement"). The Placement will be conducted on the same terms as the Company's recent Entitlement Offer announced to ASX on 3 April 2023. The \$6 million Placement will be completed in two separate tranches;

- Tranche 1 will be for approximately 536,803,333 fully paid ordinary shares (subject to rounding) at an issue price of \$0.006 per Share to raise approximately \$3.22 million (before transaction costs), which is expected to be completed on or about 1 September 2023; and
- Tranche 2 to raise approximately \$2.82 million (before transaction costs), will be subject to shareholder approval at a general meeting, currently expected to be held in or around late October 2023 (indicative date subject to change).

Every two new shares issued under the Placement will be accompanied by three free attaching options, exercisable at \$0.012 each, expiring on 10 May 2026.

No other matter or circumstance has arisen since 30 June 2023 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 12. Loss per share

	Consolidated	
	Half-year to 30 June 2023	Half-year to 30 June 2022
	\$	\$
Loss after income tax attributable to the owners of Avecho Biotechnology Limited	<u>(2,127,514)</u>	<u>(777,674)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	<u>1,931,035,554</u>	<u>1,837,705,655</u>
Weighted average number of ordinary shares used in calculating diluted loss per share	<u>1,931,035,554</u>	<u>1,837,705,655</u>
	Cents	Cents
Basic loss per share	(0.11)	(0.04)
Diluted loss per share	(0.11)	(0.04)

There are share options, which are excluded from the calculation of basic and diluted earnings per share. These equity instruments are considered to be anti-dilutive, as their inclusion would not decrease earnings per share nor increase the loss per share, from continuing operations.


For personal use only

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 2023 and of its performance for the half-year 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 Gregory Collier
Chairman

31 August 2023

For personal use only

Independent Auditor's Review Report

To the Members of Avecho Biotechnology Limited

Report on 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 2023, 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, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Avecho Biotechnology Limited does not comply with the *Corporations Act 2001* including:

- a giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed 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 our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report, which indicates that the Group incurred a net loss of \$2,127,514 and net operating cash outflows of \$400,397 during the half-year ended 30 June 2023. 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 conclusion is not modified in respect of this matter.

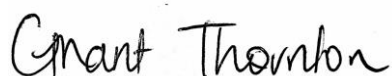
Directors' responsibility for the half-year financial report

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 2023 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*.

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



J D Vasiliou
Partner – Audit & Assurance

Melbourne, 31 August 2023