AVECHO BIOTECHNOLOGY LIMITED

ABN 32 056 482 403

APPENDIX 4E AND ANNUAL REPORT
31 DECEMBER 2019

1. Company details

Name of entity:	Avecho Biotechnology Limited
ABN:	32 056 482 403
Reporting period:	For the year ended 31 December 2019
Previous period:	For the year ended 31 December 2018

2. Results for announcement to the market

				$
Revenues from ordinary activities	up	204.0%	to	4,238,113
Profit from ordinary activities after tax attributable to the owners of Avecho Biotechnology Limited	up	121.3%	to	849,955
Profit for the year attributable to the owners of Avecho Biotechnology Limited	up	121.3%	to	849,955

Explanation of loss from ordinary activities after tax

Total revenue was increased by 204% for the year to $4,238,113 (2018: $1,394,275), mainly attributable to one-time licence fee from Ashland for the global exclusive manufacturing rights to Vital ET® and TPM® for use in personal care products.

Other income was decreased by 65% to $467,300 (2018: $1,349,425), primarily due to nil (2018: $566,830) from termination and completion fees received from Terumo Corporation relating to TPM®/Oxymorphone and TPM®/Ropivacaine projects, and decrease in the R&D tax incentive credit to $346,008 (2018: $685,412) reflecting lower spend on R&D for the year.

Expenses from continuing operations were considerably lower at $3,640,885 (2018: $6,181,398), consisting of:

- lower legal fee of $72,340 due to the arbitration settlement in prior year (2018: $446,555);
- lower employment costs of $1,204,339 due to significant reduction in employee numbers (2018: $2,564,288); and
- lower spend on R&D of $166,043 (2018: $353,546).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.25	0.16

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 have been audited and an unqualified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Report of Avecho Biotechnology Limited for the year ended 31 December 2019 is attached.

12. Signed

Signed ______________________________ Date: 28 February 2020

Dr Greg Collier
Chairman

Avecho Biotechnology Limited

(Formerly known as Phosphagenics Limited)

ABN 32 056 482 403

Annual Report - 31 December 2019

Contents

Directors	Dr Greg Collier (Executive Chairman) Dr Ross Murdoch (Non-Executive Director) Mr David Segal (Non-Executive Director) Mr Matthew McNamara (Non-Executive Director)
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 year ended 31 December 2019.

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 Greg Collier (Executive Chairman) (Non-Executive Chairman between 1 January 2019 and 29 April 2019, becoming Executive Chairman effective 30 April 2019)
Dr Ross Murdoch (Non-Executive Director) (resigned as CEO and Managing Director, and remaining as Non-Executive Director effective 30 April 2019)
Mr David Segal (Non-Executive Director)
Mr Matthew McNamara (Non-Executive Director) (appointed on 13 January 2020)

Company secretaries
Melanie Leydin (Company Secretary) (appointed 28 December 2018)

Ms Leydin has 25 years' experience in the accounting profession including 13 years in the Corporate Secretarial professions and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, she has been the principal of Leydin Freyer, specialising in outsourced company secretarial and financial duties.

Ms Leydin is also the Chief Finance Officer of Avecho Biotechnology Limited.

Mr Michael Sapountzis (Company Secretary) (appointed 28 December 2018, resigned 19 July 2019).

Mr Sapountzis is a governance professional with extensive experience in providing executive support and managing the regulatory requirements for a variety of ASX listed companies. He holds degrees in Law and Commerce and a Graduate Diploma or Applied Corporate Governance.

Principal activities
The principal activities of the consolidated entity are the development, production, sale and licensing of products incorporating its patented platform technology TPM, for the pharmaceutical, skin care and animal health and nutrition industries.

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

Review of operations
Avecho's core business strategy is to develop and commercialise 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.

Human Health

In 2019, management were able to return their focus to the operating activities of the business and advancing the commercialisation of TPM products. The returned TPM®/daptomycin was incorporated into the broader injectable portfolio and gap analyses conducted on the remaining work required to finalise the product. Business development discussions were initiated on the product and the broader injectable portfolio. A number of these injectables successfully passed their two year stability trials and the data is being compiled for formal BD campaigns on the products. The propofol formulation was successfully reformulated to make it suitable for long term infusion, and this refined formulation has been submitted for formal stability. Two toxicology studies were conducted at Charles River, with a focus on establishing the safety of TPM® in injectable dosage forms.

Business development efforts were initiated on the two opioid patches following the successful pre-IND with the FDA in late 2018, and these efforts are ongoing.

The Company also dedicated time to due diligence on the emerging cannabinoid markets. Meetings were held with cannabinoid experts, clinicians, cannabinoid manufacturers, cannabinoid suppliers regulatory specialists, and regulatory agencies to identify the strengths and weaknesses of the emerging cannabinoid sectors and how TPM® could be positioned to best take advantage of unmet need. Early laboratory work was conducted to confirm that TPM® could increase the solubility of cannabinoids, which was supportive of early TPM® positioning. A program was designed to develop an oral cannabinoid product which will be undertaken throughout 2020.

Animal Health portfolio

Internal funding and resourcing for the Animal Health business has been minimised, with the focus shifting to working closely with two of its potential commercial partners, rather than internally driven programs. The first is evaluating the utility of TPM® as a feed additive, in their own facilities and at their own expense and the second in evaluating the utility of TPM® in a veterinary product. These studies and discussions have taken some time, yet are advancing.

In parallel, as we reported in August 2019, we have progressed our European Food Safety Authority (EFSA) application for TPM® to be utilised as a feed additive in the EU, by being advised by the EU Reference Lab that they have approved that the TPM® in-feed data and assays provided are confirmed ‘fit for purpose’. While this was an important milestone, we are continuing to work through questions from the agency as they arise. We plan to work with the interested third parties in undertaking any further studies that may be required by the agency.

Production portfolio

We have completed the technology transfer activities that was required as part of the Ashland Global Holdings Inc. (NYSE: ASH) agreement signed last year. The agreement sees Ashland Global Holdings having the global exclusive manufacturing rights to Vital ET® and TPM® for use in personal care products for a one-time licence fee of US$2.5M (approximately A$3.6 million).

We will continue to support Ashland’s manufacturing requirements, under our previous arrangement (i.e. at profit) for these products, as they work to implement and scale up the manufacturing methods in their US facilities. We anticipate at least an additional 1.8 tonnes of product will be required during 2020.

Funds from this deal provides funding for the company’s stated strategy to move its focus to its core of human health business, while monetising non-core business units. Avecho retains the intellectual property and rights to manufacture TPM® for use outside of the personal care space including in the human and animal health markets.

Review of financial results

The profit for the consolidated entity after providing for income tax amounted to $849,955 (31 December 2018: loss of $3,991,020).

Total revenue was increased by 204% for the year to $4,238,113 (2018: $1,394,275), mainly attributable to one-time licence fee from Ashland for the global exclusive manufacturing rights to Vital ET® and TPM® for use in personal care products.

Other income was decreased by 65% to $467,300 (2018: $1,349,425), primarily due to nil (2018: $566,830) from termination and completion fees received from Terumo Corporation relating to TPM®/Oxymorphone and TPM®/Ropivacaine projects, and decrease in the R&D tax incentive credit to $346,008 (2018: $685,412) reflecting lower spend on R&D for the year.

Expenses from continuing operations were considerably lower at $3,640,885 (2018: $6,181,398), consisting of:

- lower legal fee of $72,340 due to the arbitration settlement in prior year (2018: $446,555);
- lower employment costs of $1,204,339 due to significant reduction in employee numbers (2018: $2,564,288); and
- lower spend on R&D of $166,043 (2018: $353,546).

At the end of December 2019, the consolidated entity held $3,210,540 in cash and cash equivalents (2018: $2,111,171). The net assets of the consolidated entity increased by $859,145 to $4,758,951 as at 31 December 2019 (2018: $3,899,806). Working capital, being current assets less current liabilities, was $3,733,319 (2018: $2,374,763).

The net operating cash inflow for the year increased by $3,365,221 to $1,177,750 (2018: outflow of $2,187,471). This is mainly due to $3,571,429 received for the one-time licence fee from Ashland and a decrease in payments to suppliers and employees, which amounted to $3,405,550 for the year (2018: $6,374,014).

Significant changes in the state of affairs

On 24 May 2019, the Company changed its name from Phosphagenics Limited (ASX: POH) to Avecho Biotechnology Limited (ASX: AVE), effectively from 27 May 2019.

On 20 June 2019, the company's distribution partner ISP Investments LLC, a subsidiary of Ashland Global Holdings Inc. (NYSE:ASH) (Ashland), signed an agreement to acquire the global exclusive manufacturing rights to Vital ET® and TPM® for use in personal care products for a one-time licence fee of US$2.5M (approximately A$3.6 million).

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Business Strategy and Future Developments

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

The Company continues to pursue commercialisation of all its development pipeline via licensing agreements appropriate for the stage of each product's development and continues to look at new opportunities to build value for shareholders. In line with the company's strategic intent, Avecho will continue to pursue opportunities to monetise certain assets to extend its financial runway and free up resources for prioritised assets and activities.

The underlying business strategy of developing and commercialising TPM® within the relevant business areas remains unchanged from the previous year.

Human Health

The underlying business strategy of developing and commercialising TPM® for dermal and injectable application remains unchanged from the previous year. The Company's key Human Health focus has been on TPM®'s application in enhancing injectable formulations and business development discussion pertaining to its two TPM®-enhanced opioid patch products. A number of these injectable programs have now completed their two year stability program, and business development discussions have been initiated on all of them. Avecho has recently added cannabinoids to its formal development portfolio. This work aims to develop an oral cannabinoid dosage form enhanced by TPM®, and intends to be in Phase I clinical trials in late 2020. It is anticipated that this development work will open the door to further TPM® licensing opportunities for the broader medicinal cannabis space.

Animal Health and Nutrition

Internal funding and resourcing for the Animal Health business have been and will continue to be minimised. Out-licencing of the technology to suitable animal health partner/s, continues to be the focus.

Production

Avecho continues to produce TPM® products for commercial sale. The key focus into 2020-21 is to expand and improve its sales volume and overall margin in human and animal health market segments.

Licensing

It is anticipated that a range of licensing opportunities for pharmaceutical products containing TPM® will be announced in the coming months.

Avecho will continue to support Ashland during 2020, in supplying Vital ET® for its customers as they complete their set-up and scale-up of their manufacturing facilities in the US.

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 material breaches of any environmental regulations.

Information on directors

Name:	Dr Greg Collier
Title:	Executive Chairman (Non-Executive Chairman between 1 January 2019 and 29 April 2019, becoming Executive Chairman effective 30 April 2019)
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. He has led the planning and execution of multiple commercial transactions including in and out licensing deals and major M&A activities, and he has successfully taken a drug from discovery through to regulatory approval. Notably, Dr Collier steered ChemGenex Pharmaceuticals Limited from a research-based Company with a market capitalisation of $10 million to a Company with completed clinical trials and regulatory dossiers submitted to the FDA and EMA. In 2011, ChemGenex was sold to Cephalon Inc. (now subsidiary of Teva Pharmaceuticals Industries Limited) for $230 million. Prior to his commercial pharmaceutical career, Dr Collier had an outstanding academic career resulting in over 150 peer reviewed publications, and senior authorship on 33 patents. Dr Collier was the inaugural Alfred Deakin Professor at Deakin University, and also held positions at Melbourne University, Monash University and the University of Toronto. In 2010, Dr Collier was awarded the Roche Award of Excellence for his contribution to the biotechnology industry.
Other current directorships:	None
Former directorships (last 3 years):	Invion Limited
Interests in shares:	2,000,000 ordinary shares
Interests in options:	2,250,000 options

Name:	Ross Murdoch
Title:	Non-Executive Director (resigned as CEO and Managing Director, and remaining as Non-Executive Director effective 30 April 2019)
Qualifications:	PhD GAICD
Experience and expertise:	Dr Murdoch joined Phosphagenics as CEO in January 2015 and was appointed as director in April 2015. He has more than 25 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:	None

Name:	Mr David Segal
Title:	Non-Executive Director
Qualifications:	B.Com B.Law
Experience and expertise:	Mr Segal was the Investor Relations Manager at Phosphagenics from 2011 to 2015. Prior to this he worked for over 30 years in stockbroking, including setting up, raising capital for and running Trent Securities which was absorbed into Shaw Stockbroking in 1992. Mr Segal has been a shareholder of Phosphagenics since 1999. Mr Segal has a law/commerce degree from Melbourne University and is a graduate of the Australian Institute of Company Directors.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	18,491,281 ordinary shares
Interests in options:	1,500,000 options

Name:	Matthew McNamara
Title:	Non-Executive Director (appointed on 13 January 2020)
Qualifications:	BSc (Hons), MBA
Experience and expertise:	Mr McNamara joined the Board in January 2020. He has over 30 years' experience in the healthcare and medical sciences sector. In 2003, he founded BioBridge Australia, a biotechnology commercialisation advisory company and advised a number of public biotechnology / investment companies. He is presently a director of Adherium Ltd (ASX:ADR), SciCapital Pty Ltd, Microbio Pty Ltd, ESN Cleer Pty Ltd and Grey Innovation Group Pty Ltd. He has held previous directorship in Avita Medical Ltd, Bioxyne Ltd, and Saluda Medical Pty Ltd. Mr McNamara has also served as CIO of BioScience Managers Pty Ltd, was CEO of SciCapital Pty Ltd, a Life Sciences Venture Capital fund, SVP Business Development for eBioinformatics Inc, General Manager of Vistakon Pty Ltd (a Johnson & Johnson Medical franchise), and held numerous management positions in Australia with Merck & Co.
Other current directorships:	Adherium Ltd
Former directorships (last 3 years):	None
Interests in shares:	None
Interests in options:	None

'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.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 31 December 2019, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
Greg Collier	5	5
Ross Murdoch	5	5
David Segal	5	5

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.

* Mr Matthew McNamara was appointed as a Non-Executive Director in January 2020. Therefore he does not appear on the above table.

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
- 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.

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

Australian based 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.

Salaries are subject to annual review effective 1 July each year. Due to concerns regarding cash availability pay rises were last awarded to some KMP on 1 July 2016.

Short term incentives

The Company has in place a Short Term Incentive Program for all employees to reward for achievement of defined Company and agreed individual performance expectations for 12 months ending 31 December each year.

The available bonus would comprise:
- 33.3% corporate component set by the Board based on organisational targets which align with the Company's overall strategic goals
- 33.3% individual key performance targets set at beginning of each period, aligning with corporate with organisational targets as well as team and personal targets, the achievement of which will be assessed by the employee's immediate manager
- 33.3% individual constructive behaviours as assessed by the employee's immediate manager

Eligible executives, apart from the CEO, can receive up to 10% of their fixed base salary as a bonus should they meet expected KPIs and up to 20% if KPI targets are exceeded. The CEO is eligible to receive up to 40% of his fixed base salary as a bonus. The bonus is set to be paid in March of each year (unless modified) in the form of cash.

Any US employee is under a separate contract and is entitled to a discretionary annual cash bonus of up to 20% of base pay or other agreed amount based on achieving KPI targets set each year.

The bonus outcomes are discretionary and are based on performance criteria outlined above, 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

The long-term incentive remuneration scheme was replaced during 2016 with an Equity Incentive Plan (EIP). It was the view of the Board that the milestones set in the previous Avecho' Employee Conditional Rights Scheme (ECRS) could not be achieved and therefore did not provide the requisite incentive.

The Avecho' EIP is designed to reward staff in a manner that aligns remuneration with the creation of shareholder value and to ensure that all staff, including executives, views their relationship with the Group as a long-term one. As such the EIP has been offered to all staff who meet the minimum service criteria, with vesting requiring continuation of service.

During 2016 the Board approved the issue of options (EIP 2016 Option) to employees. In May 2017 shareholders approved the issue of EIP 2016 Options to the CEO. Any outstanding ECRS were forfeited by employees on the issue of EIP 2016 Options.

Equity Incentive Plan 2016 Option (EIP 2016 Option)

The EIP 2016 Option allows eligible employees to acquire shares at a price of $0.023, which was set at 10% over the 5-day VWAP at the invitation date, subject to certain vesting conditions being achieved. The options will vest and become exercisable in tranches as follows:
- one-third of the Options would vest on 11 September 2017 (Tranche 1 Vesting Date), subject to the volume weighted average of the prices of shares traded on ASX in any 5 consecutive trading days (5 Day VWAP) during the period commencing 3-months immediately prior to and extending to 3-months post the Tranche 1 Vesting Date being greater than 50% above the Invitation VWAP ($0.021), calculated to be $0.032. This tranche lapsed on 11 December 2017;
- one-third of the Options will vest on 10 September 2018 (Tranche 2 Vesting Date), subject to any 5 Day VWAP during the period commencing 3-months immediately prior to and extending to 3-months post the Tranche 2 Vesting Date being greater than 100% above the Invitation VWAP ($0.021), calculated to be $0.042. This tranche lapsed on 10 December 2018;
- one-third of the Options will vest on 9 September 2019 (Tranche 3 Vesting Date), subject to any 5 Day VWAP during the period commencing 3-months immediately prior to and extending to 3-months post the Tranche 3 Vesting Date being greater than 150% above the Invitation VWAP ($0.021), calculated to be $0.053. This trance lapsed on 9 December 2019.

All current and prospective employees, including executive and non-executive directors, are eligible to participate in the scheme.

The scheme is administered by the Board, with all objectives, determinations, approvals or opinions made or given by the Board in its absolute discretion.

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. The Non-Executive Chairman became Executive Chairman from 30 April 2019. As such, his director fee was increased accordingly. See table below.

Annual Director Fees	2019 $	2018 $
Chair	164,250	110,000
Non-Executive Director	55,000	55,000

Fees are determined within an aggregate non-executive director's pool limit approved by shareholders. The aggregate currently stands at $400,000 and was approved by shareholders at 2014 Annual General Meeting. This amount, or part thereof, is divided among non-executive directors as determined by the Board and reflecting time and responsibility related to the Board and committees. The aggregate paid to non-executive directors was $129,016 (2018: $194,087). Directors fees include statutory superannuation contributions as required under Australian superannuation guarantee legislation.

Non-executive director's fees are reviewed annually by the Board and there have been no changes to fees in either 2018 or 2019.

The non-executive directors do not receive 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.

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.

As at 31 December 2019, 3,750,000 non-performance based vested options remains on issue.

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 2019 Annual General Meeting ('AGM')
At the Company's AGM held on 22 May 2019, 92.44% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2018. 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 of Avecho Biotechnology Limited:
- Greg Collier (Executive Chairman) (Non-Executive Chairman between 1 January 2019 and 29 April 2019, becoming Executive Chairman effective 30 April 2019)
- Ross Murdoch (Non-Executive Director) (resigned as CEO and Managing Director, and remaining as Non-Executive Director effective 30 April 2019)
- David Segal (Non-Executive Director)
- Matthew McNamara (Non-Executive Director) (appointed 13 January 2020)

Other key management personnel:
- Paul Gavin (Chief Scientific Officer)
- Roksan Libinaki (General Manager, Animal Health and Nutrition)

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		
2019	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave $	Performance rights $	Options $	Total $
Directors:								
Greg Collier*	133,486	-	-	12,681	-	-	1,023	147,190
David Segal	50,228	-	-	4,772	-	-	682	55,682
Ross Murdoch**	33,486	-	-	3,181	-	-	-	36,667
Chief Executive Officer / Managing Director:								
Ross Murdoch**	117,855	-	-	11,083	-	-	5,766	134,704
Other Key Management Personnel:								
Paul Gavin	200,000	-	-	19,000	12,410	-	3,477	234,887
Roksan Libinaki	173,000	-	-	16,435	6,946	-	3,477	199,858
	708,055	-	-	67,152	19,356	-	14,425	808,988

* Dr Greg Collier assumes the role of Executive Chairman effective 30 April 2019. Prior to this date, he was the Non-Executive Chairman of the company.

** Dr Ross Murdoch resigned as CEO and Managing Director, and remaining as Non-Executive Director effective 30 April 2019. His Non-Executive Director fees are separately disclosed in the above remuneration table.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		
2018	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave $	Performance rights $	Options $	Total $
Directors:								
Greg Collier	100,457	-	-	8,014	-	-	2,661	111,132
David Segal	50,228	-	-	4,772	-	-	1,774	56,774
Peter Lankau*	26,181	-	-	-	-	-	-	26,181
Chief Executive Officer / Managing Director:								
Ross Murdoch	351,084	-	-	33,889	6,388	-	12,918	404,279
Other Key Management Personnel:								
Paul Gavin	200,000	-	-	19,000	3,650	-	8,298	230,948
Anna Legg**	175,409	-	-	18,050	3,468	-	(3,619)	193,308
Roksan Libinaki	173,455	-	-	16,435	3,157	-	8,298	201,345
Alex Stojanovic***	264,984	-	31,372	27,193	-	-	(1,810)	321,739
	1,341,798	-	31,372	127,353	16,663	-	28,520	1,545,706

* Peter Lankau retired from the Board on 25 May 2018.
** Anna Legg resigned on 28 December 2018.
*** Alex Stojanovic was made redundant on 30 September 2018.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2019	2018	2019	2018	2019	2018
Directors:						
Greg Collier	99%	98%	-	-	1%	2%
David Segal	99%	97%	-	-	1%	3%
Peter Lankau	-	100%	-	-	-	-
Ross Murdoch	100%	-	-	-	-	-
Chief Executive Officer / Managing Director:						
Ross Murdoch	96%	97%	-	-	4%	3%
Other Key Management Personnel:						
Paul Gavin	99%	96%	-	-	1%	4%
Anna Legg	-	100%	-	-	-	-
Roksan Libinaki	98%	96%	-	-	2%	4%
Alex Stojanovic	-	100%	-	-	-	-

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 Schemes is governed by the Scheme document 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**
Ross Murdoch (Chief Executive Officer)	No fixed term 6 months	$383,250	6 months***
Paul Gavin (Chief Scientific Officer)	No fixed term 1 month	$219,000	1 month
Roksan Libinaki (General Manager, Animal Health and Nutrition)	No fixed term 3 month	$189,435	3 months

* Base salary quoted as at 31 December 2019, reviewed annually by the Board.
** Base salary payable if the Company terminates employee with notice and without cause.
*** Dr Murdoch resigned as CEO and Managing Director, effective 30 April 2019. The Board has agreed to the early release from his six month notice period, in exchange for releasing Avecho from paying any outstanding contractual entitlements.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2019.

Options

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

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Greg Collier	750,000	31 May 2017	9 September 2017	9 September 2021	$0.023	$0.001
Greg Collier	750,000	31 May 2017	9 September 2018	9 September 2021	$0.023	$0.003
Greg Collier	750,000	31 May 2017	9 September 2019	9 September 2021	$0.023	$0.005
David Segal	500,000	31 May 2017	9 September 2017	9 September 2021	$0.023	$0.001
David Segal	500,000	31 May 2017	9 September 2018	9 September 2021	$0.023	$0.003
David Segal	500,000	31 May 2017	9 September 2019	9 September 2021	$0.023	$0.005
Ross Murdoch*	5,000,000	31 May 2017	9 December 2019	9 September 2021	$0.023	$0.003
Paul Gavin*	1,250,000	6 October 2016	9 December 2019	9 September 2021	$0.023	$0.053
Roksan Libinaki*	1,250,000	6 October 2016	9 December 2019	9 September 2021	$0.023	$0.053

* Options were forfeited on 9 December 2019 as they did not meet the market vesting condition. However share based payments expense were recognised in accordance with AASB 2.

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 2019 are set out below:

Name	Number of options granted during the year 2019	Number of options granted during the year 2018	Number of options vested during the year 2019	Number of options vested during the year 2018
Greg Collier	-	-	750,000	750,000
David Segal	-	-	500,000	500,000

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 2015 to 2019.

	2019 $	2018 $	2017 $	2016 $	2015 $
Total revenue from continuing operations	4,238,113	1,394,275	1,150,356	1,588,294	2,190,000
Loss from continuing operations	849,955	(3,991,020)	(8,618,028)	(17,245,000)	(19,577,000)

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:

	2019	2018	2017	2016	2015
Share price at financial year end (cents)	0.40	0.50	1.80	2.83	1.17
Basic earnings per share (cents per share)	0.05	(0.25)	(0.66)	(1.37)	(1.55)
Diluted earnings per share (cents per share)	0.05	(0.25)	(0.66)	(1.37)	(1.55)

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Other	Balance at the end of the year
Ordinary shares					
Greg Collier	2,000,000	-	-	-	2,000,000
Ross Murdoch	1,666,667	-	-	-	1,666,667
David Segal	18,491,281	-	-	-	18,491,281
Paul Gavin	99,000	-	-	-	99,000
Roksan Libinaki	423,689	-	-	-	423,689
	22,680,637	-	-	-	22,680,637

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	Forfeited	Balance at the end of the year
Options over ordinary shares					
Greg Collier	2,250,000	-	-	-	2,250,000
Ross Murdoch	5,000,000	-	-	(5,000,000)	-
David Segal	1,500,000	-	-	-	1,500,000
Paul Gavin	1,250,000	-	-	(1,250,000)	-
Roksan Libinaki	1,250,000	-	-	(1,250,000)	-
	11,250,000	-	-	(7,500,000)	3,750,000

* 7,500,000 options were forfeited on 9 December 2019 when the market vesting condition was not satisfied.

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
31 May 2017	9 September 2021	$0.023	3,750,000

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

There were no ordinary shares of Avecho Biotechnology Limited issued on the exercise of options during the year ended 31 December 2019 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, 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 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

There are no officers of the company who are former partners of Grant Thornton.

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 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 Greg Collier
Executive Chairman

28 February 2020

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Auditor’s Independence Declaration

To the Directors of Avecho Biotechnology Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Avecho Biotechnology Limited for the year ended 31 December 2019, 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

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Cunningham
Partner – Audit & Assurance

Melbourne, 28 February 2020

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

	Note	Consolidated 2019 $	Consolidated 2018 $
Revenue from contracts with customers	4	4,238,113	1,394,275
Cost of sales		(214,573)	(553,322)
Gross profit		4,023,540	840,953
Other income	5	467,300	1,349,425
Employee and directors benefits expenses	6	(1,204,339)	(2,564,288)
Legal expenses	7	(72,340)	(446,555)
Research expenses		(166,043)	(353,546)
Consultancy and professional fees		(543,311)	(877,652)
Amortisation and depreciation		(683,457)	(725,639)
Impairment losses		(108,324)	(157,000)
Other expenses	8	(851,746)	(944,958)
Impairment of financial assets		(293)	(108,700)
Finance costs		(11,032)	(3,060)
Profit/(loss) before income tax expense		849,955	(3,991,020)
Income tax expense	9	-	-
Profit/(loss) after income tax expense for the year attributable to the owners of Avecho Biotechnology Limited		849,955	(3,991,020)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		4,099	16,547
Other comprehensive income for the year, net of tax		4,099	16,547
Total comprehensive income for the year attributable to the owners of Avecho Biotechnology Limited		854,054	(3,974,473)
		Cents	**Cents**
Basic earnings per share	31	0.05	(0.25)
Diluted earnings per share	31	0.05	(0.25)

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

	Note	Consolidated 2019 $	Consolidated 2018 $
Assets			
Current assets			
Cash and cash equivalents	10	3,210,540	2,111,171
Trade and other receivables	11	755,432	677,031
Inventories	12	148,764	99,849
Other current assets		163,412	359,214
Total current assets		4,278,148	3,247,265
Non-current assets			
Plant and equipment	13	93,710	159,582
Right-of-use assets	14	86,218	-
Intangibles	15	857,000	1,395,000
Total non-current assets		1,036,928	1,554,582
Total assets		5,315,076	4,801,847
Liabilities			
Current liabilities			
Trade and other payables	16	188,061	571,961
Lease liabilities	1	89,493	-
Provisions	17	267,275	300,541
Total current liabilities		544,829	872,502
Non-current liabilities			
Lease liabilities	1	7,696	-
Provisions	18	3,600	29,539
Total non-current liabilities		11,296	29,539
Total liabilities		556,125	902,041
Net assets		4,758,951	3,899,806
Equity			
Issued capital	19	232,632,424	232,632,424
Reserves	20	28,152,820	30,415,923
Accumulated losses		(256,026,293)	(259,148,541)
Total equity		4,758,951	3,899,806

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 2018	231,274,227	30,351,533	(255,157,521)	6,468,239
Loss after income tax expense for the year	-	-	(3,991,020)	(3,991,020)
Other comprehensive income for the year, net of tax	-	16,547	-	16,547
Total comprehensive income for the year	-	16,547	(3,991,020)	(3,974,473)
Transactions with owners in their capacity as owners:				
Issue of share capital	1,371,688	-	-	1,371,688
Transaction costs	(13,491)	-	-	(13,491)
Employee equity settlement benefits	-	47,843	-	47,843
Balance at 31 December 2018	232,632,424	30,415,923	(259,148,541)	3,899,806

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 January 2019	232,632,424	30,415,923	(259,148,541)	3,899,806
Adjustment to opening accumulated losses for change in accounting standard (Note 1)	-	-	(13,593)	(13,593)
Balance at 1 January 2019 - restated	232,632,424	30,415,923	(259,162,134)	3,886,213
Profit after income tax expense for the year	-	-	849,955	849,955
Other comprehensive income for the year, net of tax	-	4,099	-	4,099
Total comprehensive income for the year	-	4,099	849,955	854,054
Transactions with owners in their capacity as owners:				
Share-based payments (note 32)	-	18,684	-	18,684
Transfer	-	(2,285,886)	2,285,886	-
Balance at 31 December 2019	232,632,424	28,152,820	(256,026,293)	4,758,951

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

	Note	Consolidated 2019 $	Consolidated 2018 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		4,503,030	1,527,990
Receipt of recoveries		87,500	6,664
Receipt of government grants		-	2,085,059
Other receipts - termination and completion fees		-	566,830
Payments to suppliers and employees (inclusive of GST)		(3,405,550)	(6,374,014)
Finance costs paid		(7,230)	-
Net cash from/(used in) operating activities	30	1,177,750	(2,187,471)
Cash flows from investing activities			
Interest received		11,058	42,273
Payments for plant and equipment	13	-	(424)
Net cash from investing activities		11,058	41,849
Cash flows from financing activities			
Proceeds from issue of shares		-	1,371,688
Cost of issue of shares		-	(13,491)
Payment of principal element of lease liabilities		(89,439)	-
Net cash from/(used in) financing activities		(89,439)	1,358,197
Net increase/(decrease) in cash and cash equivalents		1,099,369	(787,425)
Cash and cash equivalents at the beginning of the financial year		2,111,171	2,898,596
Cash and cash equivalents at the end of the financial year	10	3,210,540	2,111,171

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

Note 1. Significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Avecho Biotechnology Limited and its subsidiaries (the Group).

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 and the Corporations Act 2001. Avecho Biotechnology Limited is a for-profit entity for the purposes of preparing the financial statements.

i) Compliance with IFRS

The consolidated financial statements of the Avecho Biotechnology Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

ii) Historical cost convention

These financial statements have been prepared on a historical cost basis except for financial instruments and intangible assets, which have been measured at fair value.

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.

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 2019 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.

Foreign currency translation

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

Foreign currency transactions and balances

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

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

Note 1. Significant accounting policies (continued)

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.

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

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.
Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet

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 annual reporting period ended 31 December 2019.

New and amended standards adopted by the group

AASB 16: Leases

The consolidated entity has adopted AASB 16 using the modified retrospective approach whereby the consolidated entity has recognised the cumulative effect of initially applying this standard as an adjustment to the opening balance of equity as at 1 January 2019. Accordingly, the consolidated entity has not restated comparative balances in this set of financial statements.

Note 1. Significant accounting policies (continued)

Impact on application

On adoption of AASB 16, the consolidated entity recognised lease liabilities in relation to the head office lease which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.5%. The Company had an option to terminate the lease in February 2021. The associated right-of-use assets for these leases were measured on a retrospective basis as if AASB 16 had always been applied, with the incremental borrowing rate applied as at each lease's commencement date and the assets depreciated on a straight-line basis over the term of the lease. The provisions recognised in respect of onerous lease contracts were netted off against the associated right-of-use assets at the date of transition.

	Adjusted opening as at 1 January 2019 under AASB 16
Right-of-use assets	165,806
Lease liabilities	(179,399)
Accumulated losses	13,593

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.

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 2. Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group'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 31 December 2019 the Company has recorded an item in other income of $346,008 (2018: $685,412) to recognise this amount which relates to this period.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

(2) Share-based payment transactions
The group 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.

(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. (Refer to Note 15 for details of these assumptions).

Note 3. Operating segments

Identification of reportable operating segments
The group 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 Group'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
The group's Human Health portfolio covers delivery of pharmaceutical products through gels, injectables and patches.

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

All other segments
The Animal Health and Nutrition segment did not meet materiality levels and is included in the unallocated segment.

Note 3. Operating segments (continued)

Operating segment information

Consolidated - 2019	Production $	Human Health $	Other segments $	Total $
Sales, Licences and Royalties	4,204,523	33,590	-	4,238,113
Other income	-	-	112,921	112,921
Interest revenue	-	-	8,371	8,371
Income from government grants	-	273,091	72,917	346,008
Depreciation and amortisation	-	-	(683,457)	(683,457)
Impairment losses	(108,324)	-	-	(108,324)
Employee and directors benefit expense	(144,498)	(419,840)	(640,001)	(1,204,339)
Research expenses	(56,598)	(109,445)	-	(166,043)
Other operating expenses from continuing operations	(168,943)	(70,466)	(1,453,886)	(1,693,295)
Profit/(loss) before income tax expense	3,726,160	(293,070)	(2,583,135)	849,955
Income tax expense				-
Profit after income tax expense				849,955
Assets				
Segment assets	148,776	267	5,166,033	5,315,076
Total assets				5,315,076
Liabilities				
Segment liabilities	-	-	556,125	556,125
Total liabilities				556,125

Consolidated - 2018	Production $	Human Health $	Other segments $	Total $
Sales, Licences and Royalties	1,258,879	135,396	-	1,394,275
Other income	-	566,830	54,910	621,740
Interest revenue	-	-	42,273	42,273
Income from government grants	-	557,304	128,108	685,412
Depreciation and amortisation	-	-	(725,639)	(725,639)
Impairment of intangible assets	-	-	(157,000)	(157,000)
Employee and directors benefit expense	(265,957)	(744,587)	(1,553,744)	(2,564,288)
Research expenses	(20,850)	(250,515)	(82,181)	(353,546)
Other operating expenses from continuing operations	(507,152)	(175,946)	(2,251,149)	(2,934,247)
Profit/(loss) before income tax expense	464,920	88,482	(4,544,422)	(3,991,020)
Income tax expense				-
Loss after income tax expense				(3,991,020)
Assets				
Segment assets	476,252	13,677	4,311,918	4,801,847
Total assets				4,801,847
Liabilities				
Segment liabilities	-	-	902,041	902,041
Total liabilities				902,041

Note 3. Operating segments (continued)

Understanding segment results

Revenues from external customers comes from the sale of services and TPM® products on a wholesale basis as well as royalties and licences. Revenues of approximately $4,131,519 are derived from a single external customer group. These revenues are attributed to the Production segment.

The 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	
	2019 $	2018 $	2019 $	2018 $
Australia	26,296	36,496	1,036,928	1,554,582
Switzerland	533,794	1,050,802	-	-
United States	3,571,429	76,562	-	-
India	106,594	116,024	-	-
Japan	-	83,151	-	-
China	-	29,758	-	-
Singapore	-	1,482	-	-
	4,238,113	1,394,275	1,036,928	1,554,582

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

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

Note 4. Revenue from contracts with customers

	Consolidated	
	2019 $	2018 $
From continuing operations		
Sale of goods and services	633,095	1,252,316
Royalties and licences fees	3,605,018	141,959
Total revenue from contracts with customers	4,238,113	1,394,275

Note 4. Revenue from contracts with customers (continued)

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

	Consolidated 2019 $	Consolidated 2018 $
Major product lines		
Production	4,204,523	1,258,879
Human Health	33,590	135,396
	4,238,113	1,394,275
Geographical regions		
Australia	26,296	36,496
Switzerland	533,794	1,050,802
United States	3,571,429	76,562
India	106,594	116,024
Japan	-	83,151
China	-	29,758
Singapore	-	1,482
	4,238,113	1,394,275
Timing of revenue recognition		
Sale of goods and services transferred at a point in time	633,095	1,245,753
Contract services rendered over time	-	6,563
Licence fees recognised at a point in time	3,571,429	-
Royalties and licence fees recognised over time	33,589	141,959
	4,238,113	1,394,275

Accounting policy for revenue from contracts with customers

Revenue arises mainly from manufacturing and sale of Vital ET® and TPM®, royalties and 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.

Note 4. Revenue from contracts with customers (continued)

Licence fees
Revenue from licence fees for 2019 financial year relates to the sale of global exclusive manufacturing rights to Vital ET® and TPM® for use in personal care products. The transaction price is for a fixed fee of AUD$3.7 million (USD$2.5 million). Revenue is recognised at a point of time when the licence agreement was signed.

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

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

Note 5. Other income

	Consolidated	
	2019 $	2018 $
Net foreign exchange gain	25,421	48,246
Income from government grants	346,008	685,412
Interest income	8,371	42,273
Termination and completion fees	-	566,830
Recoveries*	-	6,664
Legal cost refund	87,500	-
Other income	467,300	1,349,425

*The Company recognises the payments received under Deeds of Settlement or from the Bankruptcy Trustee, related to the misappropriations announced in 2014, when they are virtually certain.

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 group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Accounting policy for interest income

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

Note 6. Employee and directors benefits expenses

	Consolidated 2019 $	2018 $
Director fees	237,543	191,180
Research and development employee expenses	389,333	680,118
Redundancy costs	12,673	95,590
ESOP expenses	18,684	47,843
Other employee expenses	546,106	1,549,557
	1,204,339	2,564,288

Accounting policy for termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Note 7. Legal expenses

	Consolidated 2019 $	2018 $
Legal expenses associated with arbitrations	-	138,705
Other legal and settlement expenses	72,340	307,850
	72,340	446,555

Note 8. Other expenses

	Consolidated 2019 $	2018 $
Travel	116,664	197,486
Insurance	201,057	164,851
Shareholder and listing expenses	88,048	131,972
Patent portfolio expenses	345,274	299,854
Occupancy expenses	89,105	187,860
Other	11,598	(37,065)
	851,746	944,958

Note 9. Income tax expense

	Consolidated 2019 $	Consolidated 2018 $
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit/(loss) before income tax expense	849,955	(3,991,020)
Tax at the statutory tax rate of 27.5% (2018: 30%)	233,738	(1,197,306)
Non-assessable income	(95,152)	(39,708)
Non-deductible expenses	35,608	70,685
Unused tax losses and tax offsets not recognised as deferred tax assets	(174,194)	1,166,329
Income tax expense	-	-

	Consolidated 2019 $	Consolidated 2018 $
Deferred tax assets not recognised		
The following items have not been brought to account as deferred tax assets:		
Tax losses not recognised at current tax rate of 27.5% (2018: 30%)	44,058,105	46,872,585
Total deferred tax assets not recognised	44,058,105	46,872,585

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

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 Group 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.

Note 9. Income tax expense (continued)

Accounting policy for income tax

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

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

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

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

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

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

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. Current assets - cash and cash equivalents

	Consolidated	
	2019	**2018**
	$	**$**
Cash at bank	3,124,810	364,499
Short term deposit	85,730	1,746,672
	3,210,540	2,111,171

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

Note 11. Current assets - trade and other receivables

	Consolidated 2019 $	Consolidated 2018 $
Trade receivables	151,990	400,965
Less: Allowance for expected credit losses	(109,398)	(108,700)
	42,592	292,265
R&D tax incentive credit receivable	674,045	328,037
Other receivables	38,795	56,729
	712,840	384,766
	755,432	677,031

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 $109,398 (2018: $108,700) were deemed impaired at 31 December 2019. There were no debt written-off during the year (2018: Nil).

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	
Consolidated	**2019 %**	**2018 %**	**2019 $**	**2018 $**	**2019 $**	**2018 $**
0 to 3 months overdue	-	-	42,562	292,265	-	-
Over 6 months overdue	100%	100%	109,398	108,700	109,398	108,700
R&D tax incentive credit receivable	-	-	674,075	328,037	-	-
Other receivables	-	-	38,795	56,729	-	-
			864,830	785,731	109,398	108,700

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. Current assets - inventories

	Consolidated 2019 $	Consolidated 2018 $
Raw materials (at cost)	14,946	39,638
Finished goods (at cost)	133,818	60,211
	148,764	99,849

Accounting policy for inventories
Raw materials and stores, 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. Non-current assets - plant and equipment

	Consolidated 2019 $	Consolidated 2018 $
Plant and equipment	2,420,353	2,428,756
Less: Accumulated depreciation	(2,326,643)	(2,269,174)
	93,710	159,582

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

Consolidated	Plant and equipment $	Total $
Balance at 1 January 2018	251,032	251,032
Additions	424	424
Depreciation expense	(91,874)	(91,874)
Balance at 31 December 2018	159,582	159,582
Depreciation expense	(65,872)	(65,872)
Balance at 31 December 2019	93,710	93,710

Accounting policy for plant and equipment
All plant 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.

Note 13. Non-current assets - plant and equipment (continued)

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 14. Non-current assets - right-of-use assets

	Consolidated	
	2019 $	2018 $
Buildings - right-of-use	165,804	-
Less: Accumulated depreciation	(79,586)	-
	86,218	-

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 15. Non-current assets - intangibles

	Consolidated	
	2019 $	2018 $
Intellectual property	121,362,000	121,362,000
Less: Accumulated amortisation and impairment	(120,505,000)	(119,967,000)
	857,000	1,395,000

Note 15. Non-current assets - intangibles (continued)

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 2018	2,186,000	2,186,000
Impairment of assets	(157,000)	(157,000)
Amortisation expense	(634,000)	(634,000)
Balance at 31 December 2018	1,395,000	1,395,000
Amortisation expense	(538,000)	(538,000)
Balance at 31 December 2019	857,000	857,000

Impairment testing

Intellectual Property

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

The carrying value of the acquired patents is dependent on the continued sales of Vital ET® and the commercialisation of TPM®/Oxycodone prior to the expiry of the patents. Revenue assumptions related to this have been assessed for delays in revenue receipts, with delays of one year not materially 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 Company did not capitalise any development costs during 2019 financial year (2018: Nil). All R&D expenditure was expensed as they incurred.

Note 16. Current liabilities - trade and other payables

	Consolidated 2019 $	Consolidated 2018 $
Trade payables	96,576	132,364
Accrued expenses	58,700	379,387
Other payables	32,785	60,210
	188,061	571,961

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 group 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. Current liabilities - provisions

	Consolidated 2019 $	Consolidated 2018 $
Annual leave	74,125	122,322
Long service leave	193,150	178,219
	267,275	300,541

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

Note 18. Non-current liabilities - provisions

	Consolidated 2019 $	Consolidated 2018 $
Long service leave	3,600	29,539

Note 18. Non-current liabilities - provisions (continued)

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

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

Note 19. Equity - issued capital

	Consolidated			
	2019 Shares	2018 Shares	2019 $	2018 $
Ordinary shares - fully paid	1,577,457,420	1,577,457,420	232,632,424	232,632,424

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 January 2018	1,486,011,553		231,274,227
Issue of shares	18 January 2018	91,445,867	$0.015	1,371,688
Cost of issue		-	-	(13,491)
Balance	31 December 2018	1,577,457,420		232,632,424
Balance	31 December 2019	1,577,457,420		232,632,424

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 any group Company purchases the Company's 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.

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.

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

Accounting policy for dividends
Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

Note 20. Equity - reserves

	Consolidated 2019 $	Consolidated 2018 $
Business combination reserve	27,812,871	27,812,871
Other equity-settled benefits	305,323	305,323
Foreign currency reserve	24,626	20,527
Employee equity-settled benefits reserve	10,000	2,277,202
	28,152,820	30,415,923

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

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

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

Employee share option and share plan reserve
The reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. For further details refer to note 32 in the Financial Statements.

Note 21. Financial instruments

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

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

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

Market risk

Foreign currency risk
Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the group's functional currency. The group operates in the United States as well as sells TPM® products and buys raw materials for their production which are denominated in US dollars. The Company still has outstanding commitments related to the reformulation of the TPM®/Oxymorphone patch which are denominated in Euros. The group is exposed to foreign exchange risk arising from currency exposures of transactions in US dollars and Euros.

Note 21. Financial instruments (continued)

The Company regularly monitor 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 2019 the Group had the following exposure to US dollar foreign currency not designated in cash flow hedges:

	Assets		Liabilities	
Consolidated	**2019 $**	**2018 $**	**2019 $**	**2018 $**
US dollars	2,902,770	365,638	(7,096)	(76,677)

Sensitivity

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

	AUD/USD strengthened	AUD strengthened		AUD/USD weakened	AUD weakened	
Consolidated - 2019	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
Net USD denominated financial assets	10%	(289,567)	(289,567)	(10%)	289,567	289,567

	AUD/USD strengthened	AUD strengthened		AUD/USD weakened	AUD weakened	
Consolidated - 2018	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
Net USD denominated financial assets	10%	(28,896)	(28,896)	(10%)	28,896	28,896

Price risk
The consolidated entity is not exposed to any significant price risk.

Interest rate risk
The group holds interest bearing assets and therefore the income and operating cash flows are exposed to market interest rates.

As at the reporting date, the consolidated entity had the following cash and cash equivalents:

Consolidated	**2019 Balance $**	**2018 Balance $**
Cash and cash equivalents	3,210,540	2,111,171
Net exposure to cash flow interest rate risk	3,210,540	2,111,171

An analysis by remaining contractual maturities in shown in 'liquidity and interest rate risk management' below.

Note 21. Financial instruments (continued)

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. Equity does not change as a result of increase/decrease in interest rates as the group does not hold financial assets or liabilities designated as cash flow hedges.

	Basis points increase			Basis points decrease		
Consolidated - 2019	**Basis points change**	**Effect on profit before tax**	**Effect on equity**	**Basis points change**	**Effect on profit before tax**	**Effect on equity**
Cash and cash equivalents	100	32,105	32,105	50	(16,053)	(16,053)

	Basis points increase			Basis points decrease		
Consolidated - 2018	**Basis points change**	**Effect on profit before tax**	**Effect on equity**	**Basis points change**	**Effect on profit before tax**	**Effect on equity**
Cash and cash equivalents	100	21,112	21,112	(50)	(10,556)	(10,556)

Credit risk

Credit risk arises from the financial assets of the Group 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 Group. The Group 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.

Group exposure to counterparties are continuously monitored and the aggregate value of transactions concluded are with approved counterparties. The Group 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 Group 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 Groups maximum exposure to credit risk. Maturity analysis of financial assets and liabilities based on management's expectations as follows:

31 December 2019	≤ 6 months $	6-12 months $	1-5 years $	>5 years $	Total $
Financial assets					
Cash and cash equivalents	3,210,540	-	-	-	3,210,540
Trade and other receivables	81,387	-	-	-	81,387
Total financial assets	3,291,927	-	-	-	3,291,927

31 December 2018	≤ 6 months $	6-12 months $	1-5 years $	>5 years $	Total $
Financial assets					
Cash and cash equivalents	2,111,171	-	-	-	2,111,171
Trade and other receivables	348,994	-	-	-	677,031
Total financial assets	2,460,165	-	-	-	2,788,202

Note 21. Financial instruments (continued)

Liquidity risk
Prudent liquidity risk management implies maintain sufficient cash balances. The directors regularly monitor the cash position of the group, giving consideration to the level of expenditure and future project commitments.

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

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

	Consolidated	
	2019	**2018**
	$	**$**
Short-term employee benefits	708,055	1,373,170
Post-employment benefits	67,152	127,353
Long-term benefits	19,356	16,663
Share-based payments	14,425	28,520
	808,988	1,545,706

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 company, and its network firms (2018: audit services were provided by PricewaterhouseCoopers):

	Consolidated	
	2019	**2018**
	$	**$**
Audit services		
Audit and review of the financial statements	60,000	112,000
Other services - network firms		
Tax compliance	31,700	-

Note 24. Contingent asset and liabilities

The Directors are not aware any contingent assets or contingent liabilities as at 31 December 2019 (2018: Nil).

Note 25. Commitments

	Consolidated 2019 $	Consolidated 2018 $
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	89,439
One to five years	-	7,471
	-	96,910

Cash Commitments

The Company holds term deposits totalling $85,730 (2018: $85,730) as security for the corporate credit card facility and lease at its principal place of business.

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 2019 $	Parent 2018 $
Loss after income tax	(25,111,025)	(29,827,038)
Total comprehensive income	(25,111,025)	(29,827,038)

Note 27. Parent entity information (continued)

Statement of financial position

	Parent 2019 $	Parent 2018 $
Total current assets	1,289,217	2,826,549
Total assets	5,289,388	4,773,224
Total current liabilities	522,234	873,418
Total liabilities	530,437	873,418
Equity		
Issued capital	232,632,425	232,632,425
Other equity-settled benefits	305,323	305,323
Foreign currency reserve	372,198	365,721
Employee equity-settled benefits reserve	10,000	2,277,202
Accumulated losses	(228,560,995)	(231,680,865)
Total equity	4,758,951	3,899,806

During the 2019 financial year, the parent entity impaired $22,726,451 to the intercompany loan to subsidiaries, such that the total equity aligns with the consolidated group. A retrospective adjustment was also made to 2018 parent entity disclosure. There was no impact to the group consolidated balances.

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 2019 (2018: Nil).

Contingent liabilities
The parent entity had no contingent liabilities as 31 December 2019 (2018: Nil).

Capital commitments - plant and equipment
The parent entity had no capital commitments for plant and equipment as at 31 December 2019 (2018: Nil).

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

Note 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 2019 %	Ownership interest 2018 %
Vital Health Sciences Pty Ltd	Australia	100%	100%
Phosphagenics Inc.	USA	100%	100%
Preform Technologies Pty Ltd*	Australia	100%	100%
Adoil Pty Ltd*	Australia	100%	100%

* Non-operating subsidiaries

Note 29. Events after the reporting period

No matter or circumstance has arisen since 31 December 2019 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 profit/(loss) after income tax to net cash from/(used in) operating activities

	Consolidated 2019 $	Consolidated 2018 $
Profit/(loss) after income tax expense for the year	849,955	(3,991,020)
Adjustments for:		
Depreciation and amortisation	683,457	725,639
Share-based payments	18,684	47,843
Foreign exchange differences	6,771	16,781
Interest received	(11,058)	(42,273)
Interest expense	11,035	-
Impairment losses	108,324	157,000
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(78,403)	1,717,701
Decrease/(increase) in inventories	(48,914)	191,793
(Increase)/decrease in other current assets	87,479	(141,702)
Decrease in trade and other payables	(390,375)	(666,877)
(Decrease)/Increase in deferred revenue	-	(119,463)
(Decrease)/Increase in provisions	(59,205)	(82,893)
Net cash from/(used in) operating activities	1,177,750	(2,187,471)

Note 31. Earnings per share

	Consolidated 2019 $	Consolidated 2018 $
Profit/(loss) after income tax attributable to the owners of Avecho Biotechnology Limited	849,955	(3,991,020)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,577,457,420	1,572,947,761
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,577,457,420	1,572,947,761
	Cents	**Cents**
Basic earnings per share	0.05	(0.25)
Diluted earnings per share	0.05	(0.25)

As at 31 December 2019, the consolidated entity has 3,750,000 unquoted options on issue. These equity instruments are considered to be anti-dilutive, as the exercise price of the options exceeds the average market price of ordinary shares during the period.

Note 31. Earnings per share (continued)

Accounting policy for earnings per share

Basic loss 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 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:

- The EIP 2016 Option Plan was approved by the Board in September 2017, and also by the shareholders at the May 2017 AGM, and is designed to reward staff in a manner that aligns remuneration with the creation of shareholder wealth and to ensure that all staff, including executives, view their relationship with the Group as a long-term one. As such the EIP has been offered to all staff who met the minimum service criteria, with vesting requiring continuation of service as well as achievement of a predefined share price. The vesting share price condition requires that for a period of 3-months before and after the annual vesting date that the 5-day weighted share price increase from the share price on the offer date ($0.021) by 50% ($0.32) relating to September 2017, 100% ($0.042) relating to September 2018 and 150% ($0.053) relating to September 2019. The EIP allows staff to exercise vested options at $0.023.
- 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.

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:

2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Expired	Forfeited	Balance at the end of the year
23/05/2014	22/05/2019	$0.171	3,000,000	-	-	(3,000,000)	-
06/10/2016	09/09/2021	$0.023	4,968,750	-	-	(4,968,750)	-
31/05/2017	09/09/2021	$0.023	5,000,000	-	-	(5,000,000)	-
31/05/2017	09/09/2021	$0.023	3,750,000	-	-	-	3,750,000
			16,718,750	-	-	(12,968,750)	3,750,000
Weighted average exercise price			$0.050	-	-	$0.057	$0.023

Note 32. Share-based payments (continued)

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year
23/05/2014	22/05/2019	$0.171	3,000,000	-	-	-	3,000,000
06/10/2016	09/09/2021	$0.023	19,821,300	-	-	(14,852,550)	4,968,750
31/05/2017	09/09/2021	$0.023	10,000,000	-	-	(5,000,000)	5,000,000
31/05/2017	09/09/2021	$0.023	5,250,000	-	-	(1,500,000)	3,750,000
			38,071,300	-	-	(21,352,550)	16,718,750
Weighted average exercise price			$0.035	-	-	$0.023	$0.049

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.

During the year ended 31 December 2019, $18,684 was recognised as share based payment in the statement of profit or loss and other comprehensive income (2018: $47,843). All EIP 2016 options were lapsed during the financial year as they did not achieve the share price vesting conditions.

Option pricing model

Fair value for the EIP 2016 Option was calculated using a variation of the Black-Scholes model which took account of the share-price hurdle vesting condition. Fair value for the EIP 2017 Option was calculated using the Black-Scholes model. Options will be settled in ordinary shares of Avecho Biotechnology Limited and vested options lapse if unexercised after the expiry date.

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

Model Inputs	2017 Options	2016 Options
Dividend yield %	0.0%	0.0%
Expected volatility %	60%	60%
Risk-free interest rate %	1.76%	1.76%-1.83%
Option life (years)	4.28 years	4.28 years - 4.93 years
Option Exercise price $	$0.023	$0.023
Weighted Average Share price at measurement date	$0.017	$0.017 - $0.026

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

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.

Note 32. Share-based payments (continued)

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

In the directors' opinion:

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

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

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 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 Greg Collier
Executive Chairman

28 February 2020

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Independent Auditor's Report

To the Members of Avecho Biotechnology Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Avecho Biotechnology Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 2019 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* (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.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Research and development (R&D) tax rebate (note 11)	

Under the Research and Development (R&D) Tax Incentive scheme, the Group receives a 43.5% refundable tax offset of eligible expenditures if its turnover is less than $20 million per annum provided it is not controlled by income tax exempt entities. An R&D plan is filed with AusIndustry in the following financial year, and based on this filing, the Group receives the incentive in cash. Management performs a detailed review of the Group's total research and development expenditure to determine the potential claim under the R&D tax incentive legislation.
 	
There is a degree of judgement and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.
 	
This area is a key audit matter due to the judgements and estimates associated with analysis
	Our procedures included, amongst others:
	
	• Obtaining the FY19 R&D Rebate calculations prepared by management and performing the following audit procedures:
	  – Evaluating management's qualifications;
	  – Developing an understanding of the model and identifying and assessing the key assumptions in the calculation;
	  – Reviewing included expenses for reasonableness; and
	  – Testing the mathematical accuracy of the accrual.
	• Comparing the estimates made in previous years to the amount of cash actually received after lodgement of the R&D tax claim;
	• Comparing the nature of the R&D expenditure included in the current year estimate to the prior year estimate;
	• Considering the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria;
	• Assessing the eligible expenditure used to calculate the estimate to the expenditure recorded in the general ledger;
	• Inspecting copies of relevant correspondence with AusIndustry and the ATO related to claims;
	• Engaging with our R&D specialist to review the reasonableness of the calculation; and
	• Assessing the adequacy of financial statement disclosures.

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

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2019, 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.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 15 of the Directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Avecho Biotechnology Limited, for the year ended 31 December 2019 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

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Cunningham
Partner – Audit & Assurance

Melbourne, 28 February 2020

The shareholder information set out below was applicable as at 21 February 2020.

Distribution of equitable securities

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

	Number of holders of ordinary shares
1 to 1,000	459
1,001 to 5,000	903
5,001 to 10,000	671
10,001 to 100,000	2,016
100,001 and over	1,188
	5,237
Holding less than a marketable parcel	4,226

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 (Lindmark Inv Staff S/F A/C)	93,071,745	5.90
2. HSBC Custody Nominees (Australia) Limited	86,209,916	5.47
3. Mr Mark Gregory Kerr + Mrs Linda Marie Kerr (Lindmark Inv Staff S/F A/C)	67,153,797	4.26
4. BNP Paribas Noms Pty Ltd (DRP)	41,991,591	2.66
5. Paradyce Pty Ltd (The Paradyce A/C)	38,600,000	2.45
6. Rosscope Pty Ltd (Ross Copeland Family A/C)	30,558,184	1.94
7. Mr Ross Copeland + Mrs Gina Copeland	23,018,212	1.46
8. ACK Pty Ltd (Markoff Super No 2 A/C)	20,494,147	1.30
9. Kazakco Pty Ltd (Kent Family A/C)	20,000,000	1.27
10. Citicorp Nominees Pty Limited	19,944,950	1.26
11. Churchcourt Pty Limited	19,162,500	1.21
12. Mr Ross Graham Copeland + Mrs Gina Copeland (Publicity Press S/F A/C)	16,868,545	1.07
13. Mr Brandon Armon Batagol	16,005,597	1.01
14. Servbond Pty Limited (Servbond Pty Ltd S/F A/C)	16,000,000	1.01
14. Dr Maurice Arthur Trewhella + Mrs Elizabeth Trewhella (Simpetejen Super Fund A/C)	16,000,000	1.01
16. Citycastle Pty Ltd	15,600,000	0.99
17. BHL Pension Pty Ltd (BHL Pension Fund A/C)	15,000,000	0.95
17. Mr Gary Dean Shaw	15,000,000	0.95
19. Mrs Susan Margaret Chudleigh + Mr John West Chudleigh	14,000,000	0.89
20. J P Morgan Nominees Australia Pty Limited	13,166,434	0.83
	597,845,618	37.89

Unquoted options

	Number on issue	Number of holders
Director options	3,750,000	2

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

Name	Class	Number held
Beacon Super Fund Pty Ltd	Options expiring 9 September 2021	2,250,000
Mr David Segal	Options expiring 9 September 2021	1,500,000

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Mark Gregory Kerr	199,503,526	12.65

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.

Unquoted options
Unquoted options do not have voting rights.