



ANNUAL REPORT 2021



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Recce Pharmaceuticals (ASX:RCE, FSE:R9Q) is pioneering New Classes of Synthetic Anti-Infectives designed to address the urgent global health threat posed by antibiotic resistant superbugs and emerging viral pathogens.

Studies of RECCE® 327 have indicated a universal mechanism of action (MoA) that targets both bacterial cell membrane viability and intracellular energy production. This results in efficacy against both growing and non-growing (or stationary) bacterial cells, including their multi-drug resistant superbug forms, even after repeated use - a common failure associated with existing antibiotics.

RECCE® 327 has been awarded Qualified Infectious Disease Product (QIDP) designation by the U.S. Food and Drug Administration (FDA) - labelling it for fast-track designation plus 10 years of market exclusivity from time of approval. Further to this designation, RECCE® 327 has been included on

the Pew Charitable Trusts Global New Antibiotics in Development Pipeline as the only synthetic polymer and sepsis drug candidate in development. More recently, RECCE® 327 has commenced two human clinical trials, a Phase I intravenous infusion study to assess safety and tolerability on healthy individuals and a Phase I/II topical study to assess efficacy in topical burn wound infections.

Expanding upon synthetic polymer technology, the company has strengthened their anti-infective pipeline to include: RECCE® 529, a synthetic polymer compound formulated for intravenous and nasal use, which has demonstrated encouraging anti-viral activity in animal studies against protein-based viruses including SARS-CoV-2 (COVID-19); and, RECCE® 435, a broad-spectrum polymer antibiotic formulated for oral use currently in preclinical studies, testing the efficacy against *Helicobacter pylori* (*H. pylori*) infections.

HIGHLIGHTS



Commercial

Delivered opening Research and Development (R&D) Address at 2020 World Antimicrobial Resistance (AMR) Congress

Recce awarded grant of A\$37,508 plus GST by the Aus. Govt. Dept. of Industry, Science, Energy and Resources as part of the Entrepreneurs' Programme

Raised approximately AU \$27.95m at \$1.30 per share from sophisticated and institutional investors

Total R&D rebate received – AU\$1,566,030

Awarded Two AusIndustry Advanced Overseas Findings totalling \$26,787,500 for Synthetic Antibiotic R&D over three years (1 July 2019 to 30 June 2022)

Presented at the World Microbe Forum following confirmation to publish an Abstract in the 2021 Program



Clinical

R327 selected to be in Australia SARS-CoV-2 Antiviral Screening Program

Leading US Researchers tested R327 and R529 against SARS-CoV-2

Oral R435 dose-dependent and efficacious against *H. pylori*

R327 & R529 demonstrates concentration-dependent reductions in SARS-CoV-2 *in vitro* study using organoids made from human airway epithelial cells

CMAX Clinical Research chosen as independent trial facility for Phase I clinical trial

Murdoch Children's Research Institute to evaluate *in vivo* activity of R435 oral formulation against *H. pylori* in pre-clinical studies program

Human Research Ethics Committee approval to start Phase I/II Topical Burns Study

R327 showed encouraging efficacy in an *in vitro* screening assay against SARS-CoV-2

R327 showed a reduction in SARS-CoV-2 viral genome numbers at 4,000ppm with virus no longer detectable by viral titration

Positive sinusitis animal study data against *Streptococcus pneumoniae*

Positive Human Clinical Response in Patient of R327 under Special Access Scheme Category A

R327 effective against full suite of ESKAPE pathogens

R327 Advances to Stage 2 of SARS-CoV-2 Australian Anti-Viral Screening Program

R327 Demonstrates World First Multiple Mechanism of Action



Regulatory

Anti-Viral patent granted in Japan

Recce Dual Lists on Frankfurt Stock Exchange under ticker R9Q

Pew Charitable Trusts adds R327 to annual list of: Non-traditional Products in Development to Combat Bacterial Infections

Anti-Viral patent granted in Europe

R327 registered on Australia New Zealand Clinical Trial Registry for Topical Burns Study in Humans



Management

Resignation of Dr Graham Melrose as Chief Research Officer

Board Appointment of U.S. based Dr Alan Dunton as Non-Executive Director

Appointment of Prof. Philip Sutton to Clinical Advisory Committee as Head of *Helicobacter pylori* (*H. pylori*) development program

Appointment of James Graham as Chief Executive Officer

Appointment of Michele Dilizia as Chief Scientific Officer

MESSAGE FROM THE CHAIRMAN



Dr John Prendergast
Non-Executive Chairman

Dear Shareholders,

The last 12 months represented a period of significant growth and transformation for the Company. The team has focused on building our clinical programs, expanding our product pipeline and furthering our engagement with the global medical community through meaningful research and commercial partnerships.

At the start of the year, we could not have anticipated the extent to which the world would change over the next twelve months.

For Recce Pharmaceuticals, the impact of a global pandemic presented both challenges and opportunities. Faced with the prospect of major disruptions, the Board and management team responded with effective mitigation strategies to protect our people, our financial resources, and our clinical programs. Antibiotic resistance does not stop for a pandemic and in fact, has only become a greater threat to global health.

Despite multiple challenges, the Recce team did not rest and continued to push ahead with renewed focus on our existing clinical programs while also initiating several new research partnerships and clinical programs.

The diligence of the team to pursue multiple initiatives under challenging circumstances has greatly enhanced the value of our business and expanded our promising commercial pipeline of anti-infective therapies. Under the leadership of our capable CEO James Graham, the company has managed to thrive under challenging conditions.

The team has shown a high degree of resilience and operational flexibility which I believe puts us in a good position as we work to capitalise on opportunities while scaling our operations. It is my firm belief Recce is in a stronger position because of the challenges of the last year.

The Company continues to deliver on its promise to shareholders and patients. This is evidenced by the progress of our clinical programs and the growing interest by global leaders in the field to collaborate with Recce, as well as several important new commercial partnerships and developments.

In addition to the appointment of James Graham to the role of CEO during the reporting period, we said farewell to our retiring founder and board member Dr Graham Melrose, who we sincerely thank for his contribution to the company. We also welcomed a highly experienced US-based biotechnology executive, Alan Dunton, to the board.

Our dual listing on the Frankfurt Stock Exchange and new clinical partnerships with Fiona Stanley Hospital, the Murdoch Children's Research Institute, Australia's Commonwealth Scientific and Industrial Research Organisation (CSIRO) as well as leading research groups in the United States are all evidence of the growing global interest and value of our work.

Financial stability and the operational resilience of a well-capitalised enterprise was also an important focus for the business. We value the support from existing and new shareholders for our oversubscribed placement, raising approximately \$27.95 million. Our enhanced balance sheet puts us in a strong position to pursue our clinical programs while further de-risking the future of our business.

The team is now positioned to deliver on the next major milestones of the business. I wish to extend my sincere gratitude to all of Recce's people, our CEO, management team, collaborators and all our shareholders for the commitment they have demonstrated throughout the year.

We look forward to keeping you closely informed of our progress.

Yours sincerely,



Dr John Prendergast
Non-Executive Chairman

OVERVIEW OF COMPANY ACTIVITIES

As the COVID-19 pandemic extended into and throughout the 2020/2021 financial year (FY20/21), the Company's main business activities broadened to include a greater focus on all anti-infective capabilities of the compounds whilst continuing to ensure progression and extension of existing programs.

The reporting period saw Recce Pharmaceuticals ('The Company' or 'Recce') achieve numerous milestones and further expand its clinical programs.

Lead candidate, RECCE® 327 (R327), has continued to demonstrate encouraging efficacy against a range of Gram-positive and Gram-negative bacterial pathogens as well as viral pathogens, including the SARS-CoV-2 virus, COVID-19.

The Company has completed various *in vitro* and *in vivo* studies across a broad range of indications throughout the year and is excited to progress their human clinical trials. R327 is not approved for use in humans and significant further clinical testing is required to evaluate the quality, safety and efficacy of R327.

Key milestones are summarised on the following pages.

RECCE® 327

World's First Multiple Mechanisms of Action

The FY20/21 saw further studies conducted to expand existing knowledge on R327's Mechanism of Action (MoA). The independent studies, undertaken by world leaders in bacterial MoA analysis and antibiotic profiling, highlighted **R327 having a multi-layered MoA.**

Key takeaways from the studies:



R327 rapidly and irreversibly shuts down cellular energetics (adenosine triphosphate (ATP) production) – primary MoA



R327 affects the assembly of bacterial cell division complex, components that require cellular energy to remain assembled, confirming its ability to disrupt cellular bioenergetics



R327 results in the decreased formation of the bacterial cell division complex into ring-like structures (Z-rings) in a concentration dependent manner



R327 permeabilises the cell membrane/alters the integrity of the outer membrane of *Escherichia coli* (*E. coli*) cells – intended activity without toxicity



At higher concentrations and subsequent to ATP shut down cell lysis can occur as a further MoA (bacterial bursting due to their uniquely high internal pressures)



R327 rapidly and irreversibly bactericidal to slow-growing, quiescent or stationary phase *E. coli* cells in addition to actively dividing *E. coli* cells



Within a minute, the highest concentration of R327 used, 5x minimum inhibitory concentration (MIC), was **observed to reduce viable cell counts** reported as cell forming units per millilitre of culture (CFU/ml) 100-fold (>1x10⁷ to 1x10⁵ at timepoint 0)



Current antibiotics rarely retain bactericidal activities against nondividing or stationary phase bacterial cells; however, R327 showed remarkable activity against slow-growing bacteria thereby indicating potential antibacterial activity in biofilms



In comparison to ampicillin and ciprofloxacin, **R327 is able to outperform both of these antibiotics** in bactericidal activity (as measured by viable cell counts) against stationary cells

What is ATP Production?

'ATP is the fuel of life. It's an energy currency molecule - the most important source of chemical and mechanical energy in living systems.'

Sunyoung Kim, PhD, Department of Biochemistry and Molecular Biology, Louisiana State University Health Sciences Center, New Orleans.

An ESKAPE Pathogen Company

Antimicrobial resistance (AMR) is rapidly increasing, threatening our ability to treat common infections and support modern medicine. Most commonly, hospital-acquired infections are caused by deadly Gram-positive and Gram-negative bacterial infections known collectively as ‘ESKAPE’ pathogens, which are especially dangerous due to their multi-drug resistant properties.

Dubbed ESKAPE for their propensity of ‘escaping’ the biocidal action of antibiotics, the acronym stands for six different commonly found multi-drug resistant pathogens: *Enterococcus faecium* (*E. faecium*), *Staphylococcus aureus* (*S. aureus*), *Klebsiella pneumoniae* (*K. pneumoniae*), *Acinetobacter baumannii* (*A. baumannii*), *Pseudomonas aeruginosa* (*P. aeruginosa*) and *Enterobacter* species.

An independent study was conducted by a contract research organisation to assess the *in vitro* efficacy of R327 against all ESKAPE pathogen bacterial strains. The results demonstrated R327 to be 99.9% effective against the full suite of ESKAPE pathogens, within hours of exposure.

99.9% effective

R327 demonstrated to be 99.9% effective against the full suite of ESKAPE pathogens, within hours of exposure.



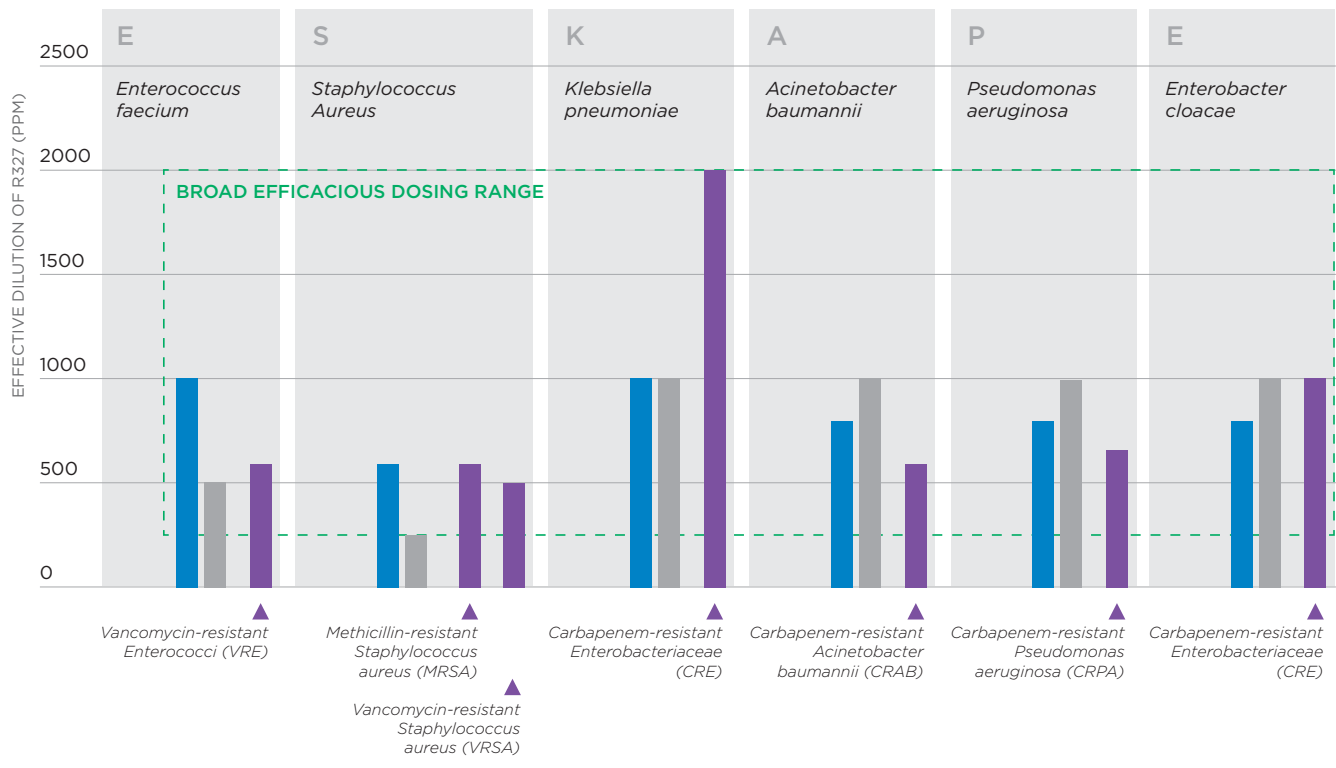
No ESKAPE

ESKAPE pathogens are responsible for 42% of the 50 million bloodstream infections recorded annually.

ESKAPE Pathogens

Standardised and Drug Resistant

■ CURRENT MACRODILUTION MIC (PPM) R327
 ■ HISTORIC (PPM) R327



World's First

R327 is the only known antibiotic in clinical development efficacious against all ESKAPE pathogens globally.

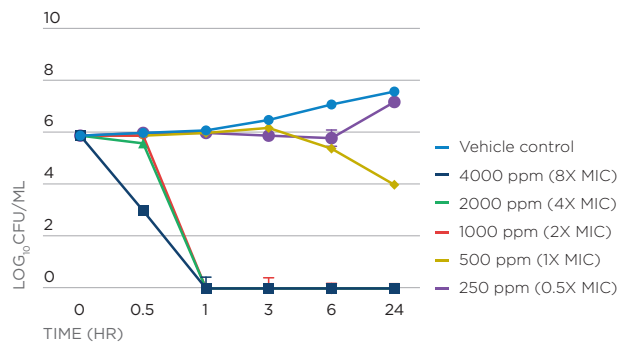
W.H.O

World Health Organisation has included ESKAPE pathogens in their list of priority pathogens.

<https://statics.teams.cdn.office.net/evergreen-assets/safelinks/1/atp-safelinks.html>

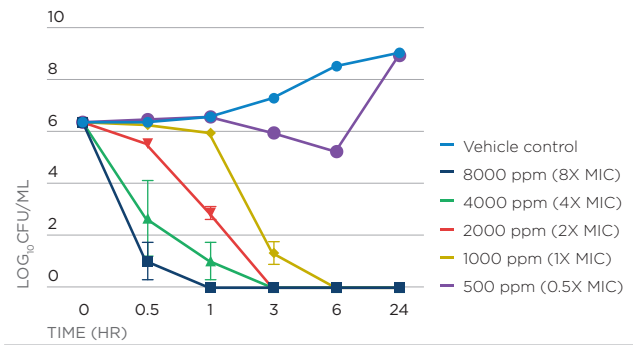
E. faecium ATCC 19434 with RECCE® 327

Time-kill curve (average)



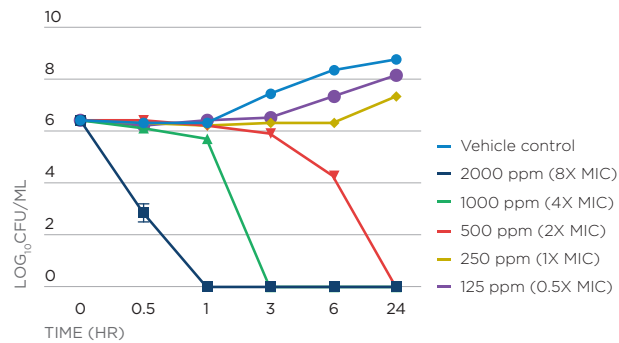
A. baumannii ATCC 17978 with RECCE® 327

Time-kill curve (average)



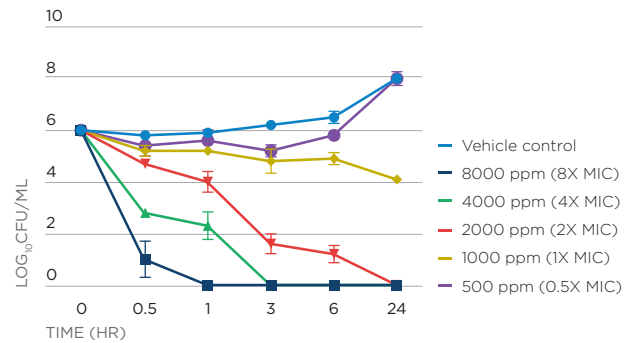
S. aureus ATCC 29213 with RECCE® 327

Time-kill curve (average)



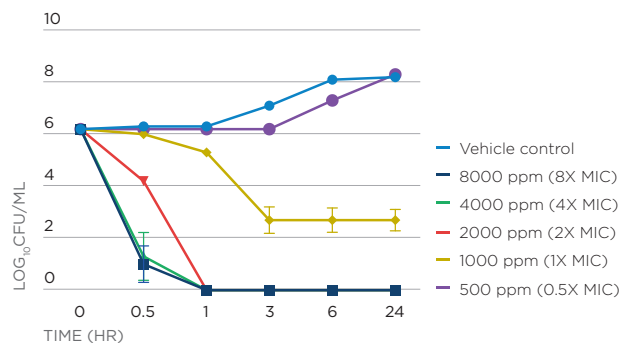
P. aeruginosa ATCC 27853 with RECCE® 327

Time-kill curve (average)



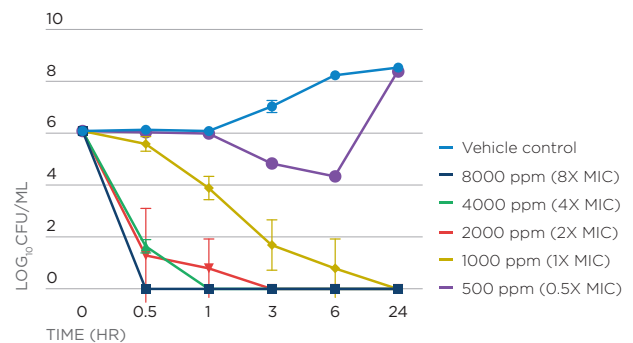
K. pneumoniae ATCC 43816 with RECCE® 327

Time-kill curve (average)



E. cloacae ATCC 13047 with RECCE® 327

Time-kill curve (average)



Human Clinical Trials

A well-designed clinical trial is the gold standard for proving that a treatment or medical approach works.

Phase I looks to identify if the drug is safe in healthy patients and determine the appropriate doses. Phase II looks to test whether the compound is efficacious in unwell patients. Phase III of testing compares the compound against marketed therapeutics with a much larger patient group. Upon reaching Phase IV, the compound is then marketed; however, still monitored for its effects.

Phase I Clinical Trial

R327 has continued to progress through the drug development pathway, showing great promise for a new class of broad-spectrum antibiotics.

Recce's Phase I human clinical trial is designed to assess the intravenous (IV) infusion of R327 in 80 healthy male subjects as a single ascending dose. The clinical trial is being conducted at South Australia's CMAX Clinical Research facility, which has maintained world-class standards and meets international regulatory authority data entry and quality requirements, including those set out by the European Medicines Agency (EMA) and U.S. Food and Drug Administration (FDA).

Recce's IV Phase I clinical trial continues to progress with clinicians appointed, independent facility audits complete, third-party R327 plasma level assay lab ready, and hundreds of vials dispatched to an intermediary clinical storage facility in South Australia.

Phase I/II Topical Clinical Trial

Parallel to the Phase I IV safety study, Recce is conducting a topical Phase I/II study of R327 as a spray-on, broad spectrum antibiotic for the treatment of infected burn wounds. Approval has been granted by the Human Research Ethics committee in late 2020, with the trial taking place at Fiona Stanley Hospital in Western Australia.

Trial investigators include burn wound specialists, Dr Edward Raby (Clinical Microbiologist and Infectious Diseases expert at Royal Perth and Fiona Stanley Hospitals), Dr Chris Heath (Head of Infectious Diseases at Fiona Stanley Hospital) and Professor Fiona Wood (Director of State Adult Burns Unit at Fiona Stanley Hospital), internationally renowned burns surgeon, known for pioneering the development of 'spray-on skin'.

More information on this trial can be found on the Australian New Zealand Clinical Trials Registry under the trial ID ACTRN12621000412831 – *Proof of concept study of RECCE® 327 topical antibiotic therapy for infected burn wounds in adults*.

Post financial year, the Company announced it had dosed multiple patients with R327 in this Phase I/II clinical trial, showing no adverse symptoms. Please visit Recce's website for the full announcement.

What is a Phase I/II Clinical Trial?

A Phase I/II clinical trial combines the first two phases in a single protocol to assess both a safe and active dose. This expedites the trial process enabling promising drugs to reach patients in need faster.

<https://pubmed.ncbi.nlm.nih.gov/31538815/>



FIONA STANLEY HOSPITAL, PERTH. Photo: Peter Bennetts



COVID-19

Over one year on from the initial global outbreak of SARS-CoV- 2 (COVID-19), we have learned the critical need for and importance of new therapies to help reduce the spread and mortality rate of the disease, including its emerging variant strains.

In addition to the recent focus on vaccines, anti-infective treatments for COVID-19 are needed now more than ever to help treat patients with the virus and subsequent bacterial co-infections.



Australia

FY20/21 saw R327 selected as a Priority 1 candidate for testing in a SARS-CoV-2 Antiviral Program led by the leading Australian scientific research institution.

Stage 1A

Stage 1A found encouraging virucidal activity of R327 against the SARS-CoV-2 virus. R327 showed a reduction in SARS-CoV-2 viral genome numbers at **4,000ppm and found the virus was no longer detectable by viral titration**; the RT-PCR detected a **99.9% reduction in viral genome copies**.

Antiviral testing was conducted in triplicate with a very small variance bar above the 4,000ppm data point. Minimal toxicity was observed at 4,000ppm of R327; however, there was no cytotoxicity at or below 1,333ppm.

Stage 1B

Upon successful completion of Stage 1A, Stage 1B was conducted to calculate R327's half maximal inhibitory concentration (IC50) and cytotoxicity. R327 reduced SARS-CoV-2 viral genome copy numbers at 4,444ppm and was accompanied by reduced infectious virus titres, allowing a half maximum Inhibitory Concentration (IC50) calculation of 2,046ppm.

Recommendation Received to Proceed to Stage 2

With results demonstrating efficacy of R327 and minimal toxicity at small windows of concentrations in the *in vitro* testing in Vero cells, the Company received a qualified recommendation to **proceed to Stage 2 of the Program for further testing in normal human bronchial epithelial (NHBE) cells grown at the air-liquid interface**.



International

Parallel to the COVID-19 studies in Australia, multiple contract research organisations in the United States have advanced studies of R327 and RECCE® 529 (R529) against SARS-CoV-2.

In vitro

Both R327 and R529 compounds demonstrated concentration-dependent reductions in the SARS-CoV-2 (COVID-19) virus titre in an *in vitro* study using organoids made from human airway epithelial cells. In a separate but related study, various concentrations of R327 and R529, further indicated an excellent toxicity profile (<0.25%) on Vero cells. Encouraging results prompted progression to an *in-vivo* study.

In vivo

R327 and R529 demonstrated dose-dependent activity *in vivo* against the SARS-CoV-2 virus in Syrian golden hamsters, a well-accepted model of infection. Intranasal administration of both compounds supports multiple potential modes of administration against the virus.

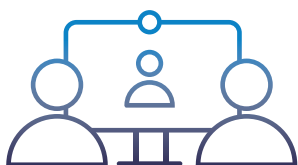
This hamster study demonstrated **the potential for nasal administration of Recce's anti-infective compounds, specifically when used against viruses**.

Moving Forward...

Expanded international animal studies are underway, seeking to build upon encouraging indications against COVID in studies to date.

ONGOING VIRTUAL ENGAGEMENT WITH THE GLOBAL INFECTIOUS DISEASE COMMUNITY, INVESTORS AND KEY OPINION LEADERS

During the COVID-19 pandemic, Recce continued its communication and active engagement as a critical operational priority, albeit virtually, with key opinion leaders, investors, shareholders and stakeholders. The Company also presented and participated at various biotech and investor conferences, including but not limited to:



| DATE | EVENT | PRESENCE |
|-------------|---|-----------------------|
| 2020 | | |
| July | Fresh Equities, A fresh Investment Update | Virtual |
| July | Switzer TV Investing, Recce Presentation | Virtual |
| August | StockPal Biotech and Healthcare Webinar | Virtual |
| September | The Capital Network TV: Recce Interview | Virtual |
| September | Ausbiz Interview | Virtual |
| October | World SuperBug Congress | Virtual |
| October | ID Week | Virtual |
| October | Switzer Virtual Event | Virtual |
| November | Market Herald Interview | Virtual |
| November | Genetic Engineering and Biotechnology News Interview | Virtual |
| December | TechKnow Perth | Virtual |
| December | BioSpace Interview | Virtual |
| 2021 | | |
| February | Spark Plus NDR | Virtual |
| March | H.C Wainwright Global Life Sciences Conference | Virtual |
| March | Finance News Network Online Investor Event | Virtual |
| March | Spark Plus Biotech Day | Virtual |
| May | The Market Herald Interview | Perth, WA |
| May | Wholesale Investor, Small Cap Event- Keynote Speech | Virtual |
| May | 6PR Interview | Radio |
| June | MST Access Australian Micro and Small Caps Conference | Virtual |
| June | World Microbe Forum | Virtual |
| June | Sepsis Tech and Innovation | Virtual |
| June | Gold Coast Investment Showcase | Surfers Paradise, QLD |

BOARD OF DIRECTORS AND KEY MANAGEMENT PERSONNEL



Dr John Prendergast

Non-Executive Chairman
BSc (Hons), MSc (UNSW), PhD (UNSW), CSS (HU)

Dr Prendergast is currently Chairman and Co-founder of Palatin Technologies, Inc. (NYSE: PTH), a US biotechnology company capitalised at over US\$260m, developing therapeutics for diseases with significant unmet medical need. He is also lead director of Heat Biologics, Inc. (NASDAQ: HTBX).



James Graham

Managing Director and
Chief Executive Officer
BCom (Entrepreneurship), GAICD

Mr Graham is the Chief Executive Officer of Recce Pharmaceuticals. Mr Graham has extensive experience in marketing, business development and commercialisation of early-stage technologies with global potential. Mr Graham has served on Recce's Board of Directors for six years; and has previously held roles of leadership including Co-Founder & General Manager (from start-up to commercialisation) of a multi-award-winning marine company and Committee Member of the West Australian Business Angels, honing his expertise in growing companies with global reach.



Michele Dilizia

Executive Director and
Chief Scientific Officer

BSc (Med Sci), Grad Dip Bus (Mkting),
BA (Journ), GAICD, MASM

Ms Dilizia is a qualified Medical Scientist with a specialisation in medical microbiology. Ms Dilizia successfully co-led the research and development of Recce's suite of anti-infective compounds, resulting in a portfolio of granted patents across the globe, including a Qualified Infectious Disease Product designation with the U.S. Food and Drug Administration (FDA).



Dr Justin Ward

Executive Director and
Principal Quality Chemist

BSc (Chem), PhD (Chem), MRACI, CChem

Dr Ward is a qualified Chemist who specialises in pharmaceutical quality management and product development. He previously held a technical role with Pfizer, involving providing data for the regulatory submissions to the FDA and TGA.



Arthur Kollaras

Principal Engineer & Head of
Manufacturing

BSc, BEng (Chem), PhilEng (Enviro),
MIEAust, MISPE

Mr Kollaras is highly qualified in chemical engineering and microbiology. He has significant experience taking a new technology concept from pilot plant to full-scale international production under FDA standards.



Dr Alan Dunton

Non-Executive Director

BSc (BioChem) Hons, M.D. (NYU)

Dr Dunton is a veteran within the Biotech industry with over three decades of senior pharmaceutical experience, where he has held leadership positions at various biotechnology and pharmaceutical companies. Dr Dunton has advanced numerous blockbuster antibiotics through regulatory review and commercialisation at Fortune 500 companies including J&J and Roche.



Justin Reynolds

Chief Financial Officer (Pitcher Partners)

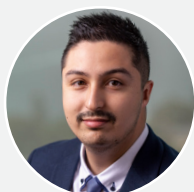
Mr Reynolds is a Partner at Pitcher Partners Sydney. Mr Reynolds' experience with multinational companies has led him to developing expertise as an Outsourced Financial Controller.



Alistair McKeough

Company Secretary (Automic Group)

Mr McKeough is a Principal at Automic Legal. He specialises in complex commercial matters that require careful and strategic planning. Mr McKeough has extensive experience advising ASX-listed companies and their directors and is a member of the University of New South Wales Law Advisory Council.



Daniel Astudillo

Head of Marketing

BCom (Marketing), BA (Spanish), MBA

Mr Astudillo is an experienced Marketing Specialist in the pharmaceutical and clinical trial sector with expertise in digital marketing campaigns and targeting key investors in the healthcare industry.

CLINICAL ADVISORY COMMITTEE



Professor Philip Sutton

Head of *Helicobacter pylori* Development Program

Professor Sutton brings more than 30 years of research and industry experience in immunology, inflammatory disease, and *H. pylori* bacteria, having served as the former Head of Immunology at CSL Limited in Melbourne. He was Chief Editor of a textbook on the subject titled *Helicobacter pylori in the 21st Century* and has co-authored 92 manuscripts published in peer-reviewed journals. Professor Sutton currently leads the Mucosal Immunology Group at the Murdoch Children's Research Institute in Victoria, Australia with a specific interest in infections caused by the *H. pylori* bacterium due to its prominence and link to stomach ulcers and gastric cancer.



Dr David Bowers 1960 - 2021

Chair of Clinical Advisory Committee

Dr Bowers was a leading Spinal Injury Physician at Royal North Shore Hospital. Dr Bowers had a special interest in the treatment of complex and life-threatening antibiotic-resistant infections, particularly among patients with severe spinal cord injuries.



In Remembrance

It is with much sadness we share the passing of Dr David Bowers, a medical pioneer, patient advocate, colleague and dear friend who died suddenly doing what he loved (skiing) on a holiday with his family in July 2021.

David was one of the first doctors to see the potential of our work and contacted the company in his on-going pursuit to help past, present and future patients under his care at Royal North Shore Hospital.

David played an important role in spearheading use of our lead antibiotic under the Therapeutic Goods Administration (TGA) Special Access Scheme Category A (individualised patient circumstances), often taking it upon himself to get all the necessary paperwork completed to help those in need of medical care.

Whilst his many accomplishments as a leading spinal injury physician speak for themselves, his determination to make a difference to the lives of patients in need and their families was a major factor driving all he did. He used his considerable talents, skills, knowledge and capability to help others.

All of us at Recce extend our deepest sympathies to his family. It was a privilege to work with David; his legacy serves as a source of inspiration, pushing us to see our breakthrough antibiotics are available to all those who need them.

THANK YOU TO DR GRAHAM MELROSE

In July 2020, Dr Graham Melrose completed his Executive Service Agreement as Chief Research Officer and resigned from his position as Executive Director of the Board.

He concluded a distinguished career of significant contributions to the fields of Polymer Chemistry and Infectious Disease, advancing a number of transformative medical technologies.

A recognised pioneer and veteran in the Biotech Industry, Dr Melrose's decades of research and peer reviewed journal articles on synthetic chemistry, including some eight years as Head of Research at Johnson & Johnson (Australia) led him to co-found Recce Pharmaceuticals in 2008. He established Recce with the mission to address the global health threat of Antibiotic Resistance.

Dr Melrose's 12 years with the Company saw a new suite of polymeric pioneers that will continue his journey over the time ahead. We thank Dr Melrose for his contribution to Recce Pharmaceuticals and global health as we build upon and advance his foundations today.



FINANCIAL REPORT

Recce Pharmaceuticals Ltd

(Formerly Recce Ltd) and Controlled
Entities ABN 73 124 849 065 Consolidated
Financial Report for the year ended
30 June 2021

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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2021

Your Directors present their report on Recce Pharmaceuticals Ltd (the 'Company') and controlled entities (the 'Group') for the year ended 30 June 2021.

Directors

The following persons held office as Directors of the Company during the year and up to the date of this report:

Dr John Prendergast
Non-Executive Chairman

Dr Graham Melrose
Executive Director (resigned 3 July 2020)

Dr Alan Dunton
Non-Executive Director (appointed 12 July 2020)

Mr James Graham
Executive Director & Chief Executive Officer
(appointed 28 August 2020)

Ms Michele Dilizia
Chief Scientific Officer and Executive Director

Dr Justin Ward
Executive Director

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Information on Directors

Dr John Prendergast

Chairman (Non-Executive)

Qualifications

BSc (Hons), M.Sc. and Ph.D., C.S.S. (Admin & Mgmt)

Experience

Dr Prendergast is currently Chairman and Co-founder of Palatin Technologies, Inc. (NYSE: PTN), a US biotechnology company capitalised at over US\$260m, developing therapeutics for diseases with significant unmet medical need; and Lead Director of Heat Biologics, Inc. (NASDAQ: HTBX).

Dr Prendergast held previous US biotechnology Board Positions, most notably Lead Director of MediciNova, Inc. valued at over US\$470m (Nasdaq: MNOV) and Osaka Securities Exchange (#4875) and Co-founder/Lead Director of Avigen, Inc, which was acquired by MediciNova in 2009 for US\$37m.

Prior to a career in commercialising pharmaceutical technologies, Dr Prendergast was Managing Director of Paramount Capital Investments and The Castle Group. Dr Prendergast has also served as a member of the Advisory Board for the Institute for the Biotechnology of Infectious Diseases ('IBID') at the University of Technology Sydney, now called the itthree Institute.

Interest in Shares

250,000 Ordinary Shares

Special Responsibilities

Chairman of Audit & Risk Management Committee
Member of Nomination & Remuneration Committee

Directorships held in other listed entities during the last three years

Palatin Technologies, Inc. (NYSE: PTN) Heat Biologics, Inc. (NASDAQ: HTBX)

Dr Graham Melrose

Director (Executive) – resigned 3 July 2020

Qualifications

BSc(Hons), PhD, MBA, FRACI, CChem, FAICD

Experience

Dr Melrose is the founder of Recce Pharmaceuticals Ltd and inventor of RECCE antibiotics. He also founded Chemeq Ltd and under his leadership and R&D direction, achieved over a three-year period the top capital gain of all companies listed on the ASX, and an average market capitalisation of approximately \$500 million.

Dr Melrose was a former senior academic in the University of NSW's Department of Applied Organic Chemistry; visiting research scientist at Oxford University and Munich University.

Dr Melrose was the former Executive Director and Chief Research Executive of Johnson & Johnson (Aust) Pty Ltd in Sydney, with global responsibilities, particularly in the Asia-Pacific Region. He also established and operated for some 10 years, an industry-leading marketing consultancy firm.

Interest in Shares

40,948,079 Ordinary Shares*

**held jointly with wife Olga Mary Melrose*

Special Responsibilities

Nil

Directorships held in other listed entities during the last three years

Nil

Ms Michele Dilizia

Director (Executive) and Chief Scientific Officer

Qualifications

BSc (Med Sci), Grad Dip Bus (Mkting), BA (Journ), GAICD, MASM

Experience

Ms Dilizia is a Qualified Medical Scientist with specialisation in medical microbiology. Previously, she had a successful executive career in public relations and marketing for a leading retail chain.

Ms Dilizia was a market research consultant, which included marketing development of health-care and pharmaceutical products.

Interest in Shares and Options

3,543,485 Ordinary Shares

1,500,000 Unlisted Options

Special Responsibilities

Nil

Directorships held in other listed entities during the last three years

Nil

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2021

Mr James Graham

Director (Executive) and Chief Executive Officer

Qualifications

BCom (Entrepreneurship), GAICD

Experience

Mr Graham is Chief Executive Officer and Executive Director of the Company.

Mr Graham has a background in marketing, business development and commercialisation of early stage technology with global potential.

Mr Graham continues to work closely with the growth and direction of Company, routinely investing alongside shareholders in capital rounds to date.

Interest in Shares and Options

Direct ownership

2,840,332 Ordinary Shares

2,250,000 Unlisted Options

Indirect ownership

3,191,600 Ordinary Shares

Special Responsibilities

Member of the Audit and Risk Management Committee

Directorships held in other listed entities during the last three years

Nil

Dr Justin Ward

Director (Executive)

Qualifications

BSc (Chem), PhD (Chem), MRACI, Chartered Chemist

Experience

Dr Ward is qualified chemist with specialisation in pharmaceutical quality management and product development.

Before Recce Pharmaceuticals, he held a technical speciality and special project leadership role with Pfizer Pharmaceuticals, involving providing data for the regulatory submissions to the FDA and TGA.

After Pfizer, he was the Laboratory Manager for Solbec, involving, again as presently, drug specifications and pharmaceutical trials for the ASX-Listed company.

Interest in Shares and Options

Direct ownership

158,966 Ordinary Shares

600,000 Unlisted Options

Special Responsibilities

Nil

Directorships held in other listed entities during the last three years

Nil

Dr Alan Dunton

Director (Non-Executive) – appointed 14 July 2020

Qualifications

M.D. New York University School of Medicine

B.S. Biochemistry. (Magna cum laude) State University School of New York at Buffalo

Experience

Dr Dunton has held leadership positions at various biotechnology and pharmaceutical companies including serving as president and chief executive officer at Panacos Pharmaceuticals, Inc., Metaphore Pharmaceuticals, Inc., and chief operating officer at Emisphere Technologies, Inc.

Dr Dunton served in several positions at Johnson and Johnson including president and managing director at the Janssen Research Foundation where he was responsible for leading over 2,000 professionals worldwide and prior to this as vice president of global clinical research and development at the R.W. Johnson Pharmaceutical Research Institute.

Dr Dunton earned his medical degree from New York University School of Medicine following his bachelor's degree in biochemistry from the State University of New York at Buffalo. Dr Dunton then completed his fellowship in clinical pharmacology at New York Hospital/Cornell University Medical Center and, in 1987, was awarded The Nellie Westerman Prize from the American Federation for Clinical Research (AFCR) for his work in medical ethics.

Interest in Shares and Options

Indirect ownership

60,000 Ordinary Shares

1,125,000 Unlisted Options

Special Responsibilities

Chairman of Nomination & Remuneration Committee
Member of the Audit & Risk Management Committee

Directorships held in other listed entities during the last three years

Palatin Technologies, Inc. (NYSE: PTN) Oragenics, Inc. (NYSE: OGEN) CorMedix, Inc. (NYSE: GRMD) Regeneus Ltd (ASX: RGS)

Chief Financial Officer

Justin Reynolds

Justin Reynolds is a Partner at Pitcher Partners Sydney.

Mr Reynolds' experience with multinational companies has led to him developing particular expertise as an Outsourced Financial Controller. He and his team provide their clients with the peace of mind that comes from high quality, technically expert outsourced accounting.

Company Secretary

Alistair McKeough

Alistair McKeough is a Partner at Automic Legal.

Mr Alistair specialises in complex commercial matters that require careful strategic planning. An experienced commercial litigator with an outstanding record of success in contested litigation, Alistair also applied his exceptional back letter knowledge and analytical skills in transactional work. He is trusted by some of Australia's most preeminent business people to handle their personal legal affairs.

Alistair is regularly engaged in matters involving serious risk to personal and corporate reputations and he has extensive experience in media sensitive matters. Prior to founding Automic Legal in 2010, Alistair worked at Freehills and was an associate to a Judge of the Federal Court of Australia.

Alistair's academic work has been quoted by the Court of Appeal of New South Wales and in leading Australian text books. Alistair has extensive experience advising ASX listed companies and their directors and is a member of the University of New South Wales Law Advisory Council.

Principal Activity

The Group is pioneering the development and commercialisation of a drug discovery and development business commercialising new Classes of synthetic anti-infectives with broad spectrum activity designed to address the urgent global health threat of antibiotic resistant superbugs and emerging viral pathogens. Its patented lead candidate, RECCE® 327 has been developed for the treatment of blood infections and sepsis derived from *E. coli* and *S. aureus* bacteria – including their superbug forms.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2021

Review of Operations

On 3 July 2020, the Company announced the completion of Dr. Graham Melrose's executive service agreement as Chief Research Officer and his resignation as Executive Director from the Board.

On 8 July 2020, the Company announced it had entered into an Antiviral SARS-CoV-2 Screening Program Agreement, with a scientific Australian Government agency and a world Class institute focused on infection and immunity following their selection of RECCE® 327 and RECCE® 529 in the Priority 1 candidate group. This was subsequently amended on 20 July 2020 to exclude RECCE® 529.

On 14 July 2020, the Company announced the appointment of Alan W. Dunton, M.D., to its Board of Directors as an independent Non-Executive Director and as a member of the Company's Audit & Risk and Remuneration & Nomination Committees.

On 16 July 2020, the Company announced it had entered into an agreement with Path BioAnalytics Inc, a precision medicine company based in Durham, North Carolina, USA, for the study of RECCE® 327 and RECCE® 529 against SARS-CoV-2.

On 23 July 2020, the Company announced that it was delivering the Opening R&D Address at the World Anti-Microbial Resistance Congress on the 8th - 9th October 2020. Due to the global pandemic, the conference was held virtually.

On 4 August 2020, the Company announced positive efficacy activity against *Helicobacter pylori* (*H. pylori*) bacteria in rats treated with new anti-infective RECCE® 435, including a favourable toxicity profile in a related study. RECCE® 435 is a synthetic polymer anti-infective formulated for oral use.

On 17 August 2020, the Company announced that the milestone associated with 7,398,174 of the Company's Class D Unquoted Performance Shares (Eligible Shares) had been achieved.

On 21 August 2020, the Company announced the appointment of Professor Philip Sutton to their Clinical Advisory Committee and Head of the *Helicobacter pylori* stomach bacteria development program.

On 28 August 2020, the Company announced that the Board of Directors has unanimously appointed James Graham to the role of Chief Executive Officer.

On 1 September 2020, the Company announced that it had received an Innovation Connections grant of A\$37,508 plus GST, under the Australian Government's Entrepreneurs' Programme.

On 8 September 2020, the Company announced an update on its international SARS-CoV-2 in-vitro (organoid) studies undertaken by Path BioAnalytics and The University of Tennessee Health Science Centre. Data indicated concentration-dependent reductions from baseline of the SARS-CoV-2 virus by RECCE® 327 and RECCE® 529 as compared to a control group. The SARS-CoV-2 virus is the cause of the global COVID-19 pandemic. The concentrations utilised were far lower than the suite of pre-clinical data on RECCE® 327 intravenous infusion program.

On 10 September 2020, the Company announced selection of South Australia's CMAX Clinical Research as the independent trial facility which will conduct a Phase I clinical study of its lead compound RECCE® 327.

On 23 September 2020, the Company announced it had raised A\$27,950,000 (before costs) in a placement to institutional, professional and sophisticated investors that resulted in 21,500,000 fully paid ordinary shares being issued at A\$1.30 per share.

On 30 September 2020, the Company announced it had entered into an agreement with the Murdoch Children's Research Institute to conduct pre-clinical studies assessing the potential of RECCE® 435 for the treatment of *Helicobacter pylori* infections.

On 30 September 2020, the Company announced that the Board of Directors had unanimously appointed Michele Dilizia to the role of Chief Scientific Officer. Ms Dilizia will also continue her role as Executive Director and as member of the Board of Directors.

On 5 October 2020, the Company announced the cash receipt of A\$640,049 Research and Development Tax Incentive rebate from the Australian Tax Office for the year ending 30 June 2020.

On 16 October 2020, the Company announced it had received Human Research Ethics Committee approval to start a Phase I/II topical clinical trial of its synthetic anti-infective RECCE® 327 for patients with infected burn wounds.

On 10 November 2020, the Company announced encouraging results from their domestically based Antiviral SARS-CoV-2 Screening Program showing RECCE® 327 had encouraging inhibition of the SARS-CoV-2 virus.

On 23 November 2020, the Company announced the Japan Patent Office had granted Patent Family 3 titled 'Anti-virus Agent and Method for Treatment of Viral Infection', furthering marketing and manufacturing monopolies to February 2037.

On 26 November 2020, the Company announced the award of an Advanced Overseas Finding for AU\$17,150,000 of Synthetic Antibiotic Research & Development applicable expenditure by AusIndustry (a division of the Australian Government's Department of Industry, Innovation and Science).

On 8 December 2020, the Company announced the award of an Advanced Overseas Finding for AU\$9,637,500 of Synthetic Anti-Viral Research & Development (R&D) applicable expenditure by AusIndustry (a division of the Australian Government's Department of Industry, Innovation and Science) – AU\$26,787,500 across infectious disease portfolio.

On 23 December 2020, the Company announced results from its international SARS-CoV-2 *in-vivo* studies, demonstrating positive activity of RECCE® 327 and RECCE® 529 against the SARS-CoV-2 virus in Syrian golden hamsters.

On 3 February 2021, the Company announced a further cash receipt of A\$925,981 Research and Development Tax Incentive rebate from the Australian Tax Office, bringing the total R&D rebate to \$1,566,030 for the year ending 30 June 2020.

On 12 February 2021, the Company announced results of RECCE® 327 (R327) demonstrating encouraging virucidal activity against the SARS-CoV-2 virus with a positive safety profile.

On 16 February 2021, the Company announced it had formalised an agreement with Fiona Stanley Hospital for a Phase I/II clinical trial to assess the potential of RECCE® 327's new spray-on, broad-spectrum antibiotic for the treatment of topical burn wound infections.

On 24 February 2021, the Company announced it had commenced the application process to dual list its stock on the Frankfurt Stock Exchange (FSE).

On 8 March 2021, the Company announced that the Company's shares were now Dual Listed on the Frankfurt Stock Exchange (FSE), with trading commencing Monday 8 March at 8:00am (CET) under the code R9Q.

On 10 March 2021, the Company announced that Chief Executive Officer James Graham was presenting an overview of the Company's business, pipeline and recent corporate updates at the H.C Wainwright Global Life Sciences Conference. The virtual conference was held from March 9 – 10, 2021 (US Eastern Standard Time).

On 15 March 2021, the Company announced its lead compound RECCE® 327 (R327) had been added to The Pew Charitable Trusts' annual list of Non-traditional Products in Development to Combat Bacterial Infections identifying new antibiotic treatments in development worldwide.

On 30 March 2021, the Company announced the European Patent Office had granted Patent Family 3 'Anti-Virus Agent for Treatment Of Viral Infections', furthering marketing and manufacturing monopolies to February 2037.

On 1 April 2021, the Company announced animal study data showing positive efficacy of a new anti-infective formulation RECCE® 111 (R111) against *Streptococcus pneumoniae* (*S. pneumoniae*) bacterial sinusitis in mice. RECCE® 111 is a non-descript title for an experimental compound, developed inhouse, building upon the unique Mechanisms of Action of RECCE® 327.

On 7 April 2021, the Company announced that a Special Access Scheme (SAS) Category A notification had been made to the Therapeutic Goods Administration (TGA) by a medical practitioner following the successful treatment of a patient with RECCE® 327 (R327), via nasal passage, against multidrug-resistant *Pseudomonas aeruginosa* (*P. aeruginosa*) sinusitis infection.

On 17 June 2021, the Company announced that it has been invited to present at the MST Access Australian Micro & Small Caps Conference 2021.

On 18 June 2021, the Company announced it had accepted an invitation to present at the World Microbe Forum following confirmation to publish a recent Abstract in the 2021 program.

Results of Operations

The operating loss has increased to \$13,513,366 (2020: loss of \$4,316,737) as a result of the increased focus on its R&D activities and share-based payments. The annual loss was after a R&D tax incentive of \$1,566,031 (2020: \$1,071,727).

The loss per share has increased during the year to 8.70 cents (2020: 3.39 cents). The Group's focus is on progressing RECCE® 327 into human clinical trials.

Dividends Paid or Recommended

No dividends have been paid or declared for payment during the year and at the date of this report.

Options

During the financial year, the Company issued 12,165,000 (2020: 2,500,000) options to acquire ordinary shares in the Company at various exercise prices and dates as disclosed in Note 17 to the consolidated financial statements. 1,331,440 options were exercised for \$255,249 during the financial year (2020: 1,963,736 options were exercised for \$558,653).

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2021

Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the year other than the dual listing on the Frankfurt Stock Exchange.

Environmental Issues

The Group's operations are not subject to significant environmental regulations under the law of the Commonwealth or of a State or Territory. The policy is to comply with or exceed its environmental obligations in each jurisdiction in which it operates. No known environmental breaches have occurred.

Future Developments, Prospects and Business Strategies

The Group continues its strategy of having its antibiotic drug tested for safety, efficacy and chemistry to enable the Group to lodge its application for Investigational New Drug (IND) status with the Food and Drug Administration (FDA) in the USA.

Events Subsequent to Reporting Date

For any potential impacts of COVID-19 (both pre and post reporting date), refer to Note 2(w).

Other than the above, no matters or circumstances have arisen since the end of the financial year, which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or state of affairs of the Group in future financial years.

Going Concern

The Directors believe that the Group is in a position to meet all its commitments as and when they fall due. Refer to Note 3 to the consolidated financial statements for further details.

Insurance of Officers

During the financial year, the Company paid a premium for an insurance policy insuring all Directors and Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against the amount of the premium.

Proceedings on Behalf of Group

Other than those matters referred to in Note 26, no person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any other such proceedings during the year.

Remuneration Report (Audited)

The remuneration report details the Key Management Personnel ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors.

For the purposes of this Remuneration Report, KMP includes the following Directors and Senior Executives who were engaged by the Company at any time during the year ended 30 June 2021:

(i) Directors

| | |
|---------------------|---|
| Dr John Prendergast | Non-Executive Chairman |
| Dr Graham Melrose | Executive Director <i>(resigned 3 July 2020)</i> |
| Dr Alan Dunton | Non-Executive Director <i>(appointed 12 July 2020)</i> |
| Mr James Graham | Chief Executive Officer and Executive Director <i>(appointed 28 August 2020)</i> |
| Ms Michele Dilizia | Chief Scientific Officer and Executive Director |
| Dr Justin Ward | Executive Director |

(ii) Key Management Personnel

| | |
|---------------------------------|--------------------|
| Mr Arthur Kollaras ¹ | Principal Engineer |
|---------------------------------|--------------------|

¹ Entered into a consultancy agreement with the Company effective 1 August 2019.

The Remuneration Report covers the following matters:

- (A) Principles used to determine the nature and amount of remuneration;
- (B) Executive service agreements;
- (C) Details of remuneration;
- (D) Share-based remuneration;
- (E) Other transactions with Key Management Personnel; and
- (F) Other information.

(A) Principles Used to Determine the Nature and Amount of Remuneration

In determining competitive remuneration rates, the Board seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans.

Independent advice may also be obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

Executive Remuneration

The Group's Remuneration Policy for Executive and Non-Executive Directors is designed to promote superior performance and long-term commitment to the Group. Executives receive a base remuneration which is market related, and may be entitled to performance based remuneration at the ultimate discretion of the Board.

Overall remuneration policies are subject to the discretion of the Board and can be changed to reflect competitive market and business conditions where it is in the interests of the Group and shareholders to do so.

Executive remuneration and other terms of employment are normally reviewed annually by the Board having regard to performance, relevant comparative information and expert advice.

The Group's reward policy reflects its obligation to align executive's remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of the Group. The principles underpinning the Group's remuneration policy are that:

- Reward reflects the competitive global market in which we operate;
- Rewards to executives are linked to creating value for shareholders;
- Remuneration arrangements are equitable and facilitate the development of senior management across the consolidated entity; and

- Where appropriate senior managers may receive a component of their remuneration in equity securities to align their interests with those of the shareholders. The total remuneration of executives and other senior managers consists of the following:

- (a) Salary - Executive Directors and senior managers receive a sum payable fortnightly in cash;
- (b) Long-term incentives - Executive Directors may participate in share option/performance right schemes with the prior approval of shareholders. Other senior managers may also participate in employee share option/performance right schemes, with any option/performance right scheme, with any option/performance rights issues generally being made in accordance with thresholds set in plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue options/performance rights to executives outside of approved employee option/performance right plans in exceptional circumstances; and
- (c) Other benefits - Executive Directors and senior managers are eligible to participate in superannuation schemes and other appropriate additional benefits.

Non-Executive Remuneration

Shareholders approve the maximum aggregate remuneration for Non-Executive Directors. The full Board recommends the actual payments to Directors and the Board is responsible for ratifying any recommendations, if appropriate. The maximum approved aggregate remuneration approved for Non-Executive Directors is currently \$180,000.

It is recognised that Non-Executive Directors' remuneration is ideally structured to exclude equity based remuneration. However, whilst the Group remains small, and the full Board, including the Non-Executive Directors are included in the operations of the Group more closely than may be the case with larger companies, the Non-Executive Directors are entitled to participate in equity based remuneration schemes subject to shareholders approval.

The Directors' believed that as at this stage, there is no relationship between the remunerations policy and performance.

All Directors are entitled to have their indemnity insurance paid by the Group.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2021

(B) Executive Service Agreements

| Name | Base Salary | Performance-Based Incentives | Term | Notice Period |
|---------------------------------|--------------|------------------------------|---------------|---------------|
| Dr John Prendergast | \$120,000 pa | Nil | No fixed term | 3 months |
| Ms Michele Dilizia | \$230,000 pa | Nil | No fixed term | 3 months |
| Mr James Graham | \$300,000 pa | Nil | No fixed term | 3 months |
| Mr Justin Ward ¹ | - | Nil | No fixed term | 4 weeks |
| Mr Arthur Kollaras ² | - | Nil | No fixed term | 4 weeks |
| Mr Alan Dunton | \$60,000 pa | Nil | No fixed term | 4 weeks |

1 Entered into an employment agreement with the Company effective 1 January 2020. Remunerated at \$170 per hour plus 9.5% Superannuation based on a one-day per week basis. Overtime pay of \$250 per hour plus 9.5% Superannuation.

2 Entered into a consultancy agreement with the Company effective 1 August 2019. Remunerated at the rate of \$450 per hour.

(C) Details of Remuneration

Director and other KMP Remuneration

Details of the nature and amount of each element of the remuneration of each KMP are shown in the table below:

Year ended 30 June 2021

| Name | Short-term benefits, cash salary and fees \$ | Accrued Long Service Leave \$ | Superannuation (post-employment benefit) \$ | Termination payments \$ | Other benefits \$ | Share-based payments \$ | Total \$ | Percentage Performance Related % |
|-------------------|---|----------------------------------|--|----------------------------|----------------------|----------------------------|------------------|-------------------------------------|
| Directors | | | | | | | | |
| G Melrose | 2,538 | - | 240 | 99,805 | - | - | 102,584 | - |
| M Dilizia | 216,346 | 35,646 | 20,553 | - | - | 914,739 | 1,187,284 | - |
| J Graham | 294,314 | 27,539 | 27,960 | - | - | 1,372,109 | 1,721,922 | - |
| J Prendergast | 120,000 | - | - | - | - | 1,326,372 | 1,446,372 | - |
| J Ward | 139,123 | 8,858 | 13,217 | - | - | 365,896 | 527,093 | - |
| A Dunton | 60,000 | - | - | - | - | 752,954 | 812,954 | - |
| Executives | | | | | | | | |
| A Kollaras | 131,200 | - | - | - | - | 243,930 | 375,130 | - |
| | 963,521 | 72,043 | 61,969 | 99,805 | - | 4,976,000 | 6,173,340 | |

Year ended 30 June 2020

| Name | Short-term benefits, cash salary and fees \$ | Accrued Long Service Leave \$ | Superannuation (post-employment benefit) \$ | Termination payments \$ | Other benefits \$ | Share-based payments \$ | Total \$ | Percentage Performance Related % |
|-------------------------|---|----------------------------------|--|----------------------------|----------------------|----------------------------|------------------|-------------------------------------|
| Directors | | | | | | | | |
| G Melrose | 220,000 | 29,356 | 20,900 | - | - | - | 270,256 | - |
| M Dilizia | 177,500 | 23,010 | 16,862 | - | - | - | 217,372 | - |
| J Graham | 186,646 | 11,544 | 17,731 | - | - | - | 215,921 | - |
| J Prendergast | 120,000 | - | - | - | - | - | 120,000 | - |
| J Ward | 144,989 | 5,714 | 13,774 | - | - | 10,000 | 174,477 | - |
| Executives | | | | | | | | |
| A Kollaras ¹ | 153,774 | - | 1,540 | - | - | 9,999 | 165,313 | - |
| | 1,002,909 | 69,624 | 70,807 | - | - | 19,999 | 1,163,339 | |

1 Entered into a consultancy agreement with the Company effective 1 August 2019.

(D) Share-Based Remuneration

Year ended 30 June 2021

(i) Issue of ordinary shares

The following shares were issued on 4 December 2020 after approval at the Annual General Meeting on 30 November 2020 as part of remuneration under a share-based payment.

| Name | Shares issued | |
|-------------------|---------------|---------------|
| | No. | \$ |
| Executives | | |
| A Dunton | 60,000 | 66,900 |
| | 60,000 | 66,900 |

(ii) Issue of options

The following options were issued on 22 February 2021 after approval at the Annual General Meeting on 30 November 2020 as part of remuneration under a share-based payment.

| Name | Options Issued | |
|-------------------|------------------|------------------|
| | No. | \$ |
| Directors | | |
| J Graham | 2,250,000 | 1,372,109 |
| M Dilizia | 1,500,000 | 914,739 |
| A Dunton | 1,125,000 | 686,054 |
| J Prendergast | 2,175,000 | 1,326,372 |
| J Ward | 600,000 | 365,896 |
| Executives | | |
| A Kollaras | 400,000 | 243,930 |
| | 8,050,000 | 4,909,100 |

The terms and conditions of each grant of options affecting remuneration in the current reporting period are as follows:

- exercise price: \$1.56;
- grant date 9 October 2020;
- grant date share price: \$1.115;
- value per option at grant date: \$0.6098;
- issue date: 22 February 2021;
- dividend yield: 0.0%;
- risk-free rate based on the Australian Treasury bond rate for five years, to align with the term of the options: 0.32%;
- expected volatility derived from the share volatility of compatible listed companies over five years, to align with the term of the options: 77.0%; and
- expected life of the Share Option: five years.

(iii) Issue of performance shares

There were no performance shares issued to Directors or KMP as part of their compensation during the year ended 30 June 2021.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2021

Year ended 30 June 2020

(i) Issue of ordinary shares

The following shares were issued on 19 December 2019 after approval at the Annual General Meeting in November 2019 as part of remuneration under a share-based payment.

| Name | Shares issued | |
|-------------------------|---------------|---------------|
| | No. | \$ |
| Executives | | |
| J Ward | 43,478 | 10,000 |
| A Kollaras ¹ | 44,444 | 9,999 |
| | 87,922 | 19,999 |

1 Entered into a consultancy agreement with the Company effective 1 August 2019.

(ii) Issue of options

There were no options issued to Directors or KMP as part of their compensation during the year ended 30 June 2020.

(iii) Issue of performance shares

There were no performance shares issued to Directors or KMP as part of their compensation during the year ended 30 June 2020.

Details of Performance Shares issued

There were no new performance shares issued during the year ended 30 June 2021. The Class B performance shares lapsed whilst the Class C and Class D performance shares were converted to ordinary shares.

A summary of performance shares which were on issue is as follows:

| Name | Performance Shares | | |
|-----------------------------|--------------------|--------------------|----------------------|
| | Class B | Class C | Class D |
| Directors | | | |
| G Melrose | 6,075,000 | 6,075,000 | 6,075,000 |
| M Dilizia | 577,212 | 577,212 | 577,212 |
| J Graham | 745,962 | 745,962 | 745,962 |
| | 7,398,174 | 7,398,174 | 7,398,174 |
| Value per performance share | 0.00 ¹ | 0.111 ² | \$0.054 ² |

1 Class B performance shares have a non-market vesting condition i.e. the Company is awarded the US Food and Drug Administration's Investigational New Drug (IND) status on or before 19 August 2020. These shares lapsed during the year.

2 The Class C and Class D performance shares were expensed in full during the 30 June 2016 financial year. These were converted to ordinary shares during the current financial year.

The Trinomial option pricing model has been used to calculate the value of the performance shares.

The following assumptions were used:

| | Class C | Class D |
|---|-----------|-----------|
| Underlying share price | \$0.20 | \$0.20 |
| 20-day VWAP barrier | \$0.60 | \$1.20 |
| Term | 5 Years | 5 Years |
| Risk-free rate | 2.18% | 2.18% |
| Number of Initial Performance Shares Issued | 8,754,423 | 8,754,423 |
| Probability of reaching milestone | N/A | N/A |

Equity Instrument Disclosures Relating to KMP

(a) Ordinary Shares

The movement of the numbers of shares in the Company for the year ended 30 June 2021 held by the Directors of the Company and other KMP of the Group, including their personally related parties, are set out below:

| Name | Balance at 1 July 2020 | Net Change Other ² | Share-based Payment ¹ | Conversion of Class C and D Performance Shares | Balance at 30 June 2021 |
|-------------------|------------------------|-------------------------------|----------------------------------|--|-------------------------|
| Directors | | | | | |
| G Melrose | 30,375,003 | (1,576,924) | – | 12,150,000 | 40,948,079 |
| M Dilizia | 2,564,061 | (175,000) | – | 1,154,424 | 3,543,485 |
| J Graham | 4,492,158 | 47,850 | – | 1,491,924 | 6,031,932 |
| J Prendergast | 250,000 | – | – | – | 250,000 |
| J Ward | 158,966 | – | – | – | 158,966 |
| A Dunton | – | – | 60,000 | – | 60,000 |
| Executives | | | | | |
| A Kollaras | 67,155 | – | – | – | 67,155 |
| | 37,907,343 | (1,704,074) | 60,000 | 14,796,348 | 51,059,617 |

1 Issued 4 December 2020.

2 Ms Michele Dilizia sold on-market 175,000 shares between 16 and 21 June 2021. Mr James Graham acquired 47,850 shares on market on 16 June 2021. Mr Graham Melrose sold on-market 1,576,924 shares during September 2020.

(b) Performance Shares

The movement of the numbers of performance shares in the Company for the year ended 30 June 2021 held by the Directors of the Company and other KMP of the Group, including their personally related parties, are set out below:

| Name | Balance at 1 July 2020 | Class C & D Performance Shares Converted to Ordinary Shares | Class B Performance Shares Lapsed/Unexercised | Balance at Date of Resignation | Balance at 30 June 2021 |
|-------------------|------------------------|---|---|--------------------------------|-------------------------|
| Directors | | | | | |
| G Melrose | 18,225,000 | (12,150,000) | (6,075,000) | – | – |
| M Dilizia | 1,731,636 | (1,154,424) | (577,212) | – | – |
| J Graham | 2,237,886 | (1,491,924) | (745,962) | – | – |
| J Prendergast | – | – | – | – | – |
| J Ward | – | – | – | – | – |
| Executives | | | | | |
| A Kollaras | – | – | – | – | – |
| | 22,194,522 | (14,796,348) | (7,398,174) | – | – |

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2021

Performance Shares Outstanding at 30 June 2021

There are no performance shares outstanding as at 30 June 2021.

(c) Options

The movement of the numbers of options in the Company for the year ended 30 June 2021 held by the Directors of the Company and other KMP of the Group, including their personally related parties, are set out below:

| | Balance at 1 July 2020 | Share-based payments | Balance at 30 June 2021 |
|-------------------|---------------------------|-------------------------|----------------------------|
| Directors | | | |
| J Graham | - | 2,250,000 | 2,250,000 |
| M Dilizia | - | 1,500,000 | 1,500,000 |
| A Dunton | - | 1,125,000 | 1,125,000 |
| J Prendergast | - | 2,175,000 | 2,175,000 |
| J Ward | - | 600,000 | 600,000 |
| Executives | | | |
| A Kollaras | - | 400,000 | 400,000 |
| | - | 8,050,000 | 8,050,000 |

(E) Other Transactions with KMP

During the financial year, consulting fees for technical services totalling \$406,770 (2020:\$nil) were paid to an entity associated with Mr A Dunton. All payments were made on normal commercial terms and conditions.

(F) Other Information

Loans to key management personnel

At year end, expense advances repayable by Mr James Graham totalled \$40,193 (2020: Nil).

There were no other loans, payables, receivables or other transactions at the end of the financial year with Directors and other KMP and their related parties of the Company or the Group.

Two strikes Rule in Respect to the Adoption of the Remuneration Report

The Corporations Act 2001 includes a 'two strikes' rule with regard to the adoption of Remuneration Reports. The 'two strikes' rule provides that if 25% or more of the votes cast on the resolution to adopt the Remuneration Report at two consecutive Annual General Meetings are against the resolution, the Company must at the later Annual General Meeting put a resolution to the shareholders proposing to convene another shareholder meeting to consider the spill of the Board ('Spill Resolution').

Under the Corporations Act 2001, the Company must have a minimum of three Directors at all times. The Corporations Act 2001, provides guidance in circumstances where either or both of the Directors are not re-elected by way of ordinary resolution, then they will be taken to have been appointed as Directors by resolutions passed at the Spill Meeting so that the Company maintains the required three Directors.

For the purposes of determining the length of time in office for future retirements by rotation, each Director who is re-elected at the Spill Meeting is considered to have been in office from the time of their previous rotation.

At the Annual General Meeting held in November 2019, the Company received a 'Yes' vote of more than 96.3% on its Remuneration Report for the 2019 financial year. No such vote was received in the November 2020 Annual General Meeting for the 2020 financial year. The group did not receive any specific remuneration related feedback from shareholders at either meeting.

No remuneration consultants were engaged during the year.

Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the Directors' Report have been rounded to the nearest dollar, unless otherwise stated.

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 on page 28.

This report is made in accordance with a resolution of the Board of Directors.



Dr John Prendergast
Non-Executive Chairman

31 August 2021

AUDITOR'S INDEPENDENCE DECLARATION



Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF RECCE PHARMACEUTICALS LTD

As lead auditor of Recce Pharmaceuticals Ltd for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Recce Pharmaceuticals Ltd and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Neil Smith'. The signature is stylized with a large, looped 'N' and a long, sweeping horizontal stroke.

Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 31 August 2021

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

CORPORATE GOVERNANCE STATEMENT

This corporate governance statement sets out Recce Pharmaceutical Limited's (**Company**) current compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (Fourth Edition) (**ASX Principles and Recommendations**). The ASX Principles and Recommendations are not mandatory.

However, this corporate governance statement discloses the extent to which the Company has followed the ASX Principles and Recommendations. This corporate governance statement is current as 31 August 2021 and has been approved by the board of the Company (**Board**).

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|--|-----------------|--|
| 1: Lay solid foundations for management and oversight | | |
| <p>1.1 A listed entity should have and disclose a board charter setting out:</p> <p>(a) the respective roles and responsibilities of the board and management; and</p> <p>(b) those matters expressly reserved to the board and those delegated to management.</p> | YES | <p>The Company has adopted a Board Charter which sets out the respective roles and responsibilities of the Board and management, and which complies with the guidelines prescribed by the ASX Corporate Governance Council.</p> <p>A copy of the Company's Board Charter is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> |
| <p>1.2 A listed entity should:</p> <p>(a) undertake appropriate checks before appointing a director or senior executive or putting someone forward for election as a director; and</p> <p>(b) provide security holders with all material information in the Company's possession relevant to a decision on whether or not to elect or re-elect a director.</p> | YES | <p>(a) The Nomination and Remuneration Committee is responsible for recommendations to the Board for the selection and appointment of members of the Board. The Company's Nomination and Remuneration Committee Charter requires the Nomination and Remuneration Committee to undertake appropriate checks before the Board appoints a person or puts forward a candidate to security holders for election as a director.</p> <p>(b) All material information relevant to the decision on whether or not to elect any potential directors, including information relating to their qualifications, experience and proposed roles within the Board are provided to shareholders in the Company's notices of meetings.</p> |

CORPORATE GOVERNANCE STATEMENT CONTINUED

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|---|-----------------|---|
| 1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment. | YES | The Company has written agreements with all Directors and senior executives which sets out the terms of their appointment. |
| 1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. | YES | The Company Secretary has been appointed by and is responsible to the Board through the Chairman. The Company Secretary is accessible to all Directors. |
| <p>1.5 A listed entity should:</p> <p>(a) have and disclose a diversity policy;</p> <p>(b) through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally; and</p> <p>(c) disclose in relation to each reporting period:</p> <p>(1) the measurable objectives set for that period to achieve gender diversity;</p> <p>(2) the entity's progress towards achieving those objectives; and</p> <p>(3) either:</p> <p>(A) the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined 'senior executive' for these purposes); or</p> <p>(B) if the Company is a relevant employer under the Workplace Gender Equality Act 2012 (Cth), the Company's most recent 'Gender Equality Indicators', as defined in and published under that Act.</p> | NO | <p>(a) The Company has adopted a Diversity Policy which complies with the guidelines prescribed by the ASX Corporate Governance Council. The Diversity Policy is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> <p>(b) The Diversity Policy:</p> <p>(i) provides a framework for the Company to set and achieve measurable objectives for achieving diversity;</p> <p>(ii) provides for the monitoring and evaluation of the scope and currency of the Diversity Policy. The Company is responsible for implementing, monitoring and reporting on the measurable objectives.</p> <p>(c) As of 30 June 2021, the respective proportions of men and women on the Board, in Senior Executive positions and across the whole organisation are set out below.</p> <p>(i) 80% of the Company's Board were male and 20% were female;</p> <p>(ii) 80% of the Company's Senior Executives were male and 20% were female;</p> <p>36% of the Group's entire workforce (including Board members) were female and 64% were male.</p> |

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|--|-------------------|--|
| <p>1.6 A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.</p> | <p>YES</p> | <p>(a) The Nomination and Remuneration Committee is responsible for evaluating the performance of the Board and individual Directors on an annual basis. The process for this is set out in the Company's Nomination and Remuneration Committee Charter which is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> <p>(b) An evaluation of the performance of the board, its committees and its individual Directors was conducted during FY21.</p> |
| <p>1.7 A listed entity should:</p> <p>(a) have and disclose a process for evaluating the performance of its senior executives at least once every reporting period; and</p> <p>(b) disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.</p> | <p>YES</p> | <p>(a) The Nomination and Remuneration Committee is responsible for evaluating the performance of Senior Executives on an annual basis in accordance with the Company's Nomination and Remuneration Committee Charter which is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> <p>(b) An evaluation of the Company's board, committee and its individual Directors was conducted during FY21.</p> |

CORPORATE GOVERNANCE STATEMENT CONTINUED

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|--|-------------------|---|
| 2: Structure the Board to be effective and add value | | |
| <p>2.1 The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director; and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p> | <p>YES</p> | <p>The Company has established a Nomination and Remuneration Committee with Dr Alan Dunton, an independent Director, as Chair of the Committee. The Committee has three members, who are:</p> <p>(a) Dr Alan Dunton – Independent Non-executive Director;</p> <p>(b) Dr John Prendergast – Independent Non-executive Director; and</p> <p>(c) Mr James Graham – Managing Director and CEO.</p> <p>The attendance at each committee meeting is disclosed in the Company's Annual Report. A copy of the Nomination and Remuneration Committee Charter is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> |
| <p>2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p> | <p>YES</p> | <p>The Board strives to ensure that it is comprised of Directors with a blend of skills, experience and attributes appropriate for the Company and its business. The Company's Board Skills Matrix is disclosed on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> |
| <p>2.3 A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, affiliation, or relationship of the type described in Box 2.3 of the ASX Principles and Recommendations but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p> | <p>YES</p> | <p>(a) Dr John Prendergast and Dr Alan Dunton, are the only Directors of the Company considered independent.</p> <p>(b) Dr John Prendergast and Dr Alan Dunton, are the only two Directors of the Company considered independent and does not have an interest, position, association or relationship of the type described in Box 2.3 of the ASX Principles and Recommendations.</p> <p>(c) Details of each Director (including their length of service) is disclosed in the Company's Annual Report.</p> |

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|---|-----------------|---|
| 2.4 A majority of the board of a listed entity should be independent directors. | NO | <p>The Board Charter requires that where practical the majority of the Board will be independent. The Board currently comprises a total of five Directors, of whom two are considered to be independent, being Dr John Prendergast and Dr Alan Dunton.</p> <p>The Board does not currently consider an independent majority of the Board to be appropriate given:</p> <p>(a) the magnitude of the Company's operations; and</p> <p>(b) the relevant skills and experience of Ms Dilizia, Mr Graham Dr Ward, Dr Prendergast and Dr Dunton mean that the Board is appropriately skilled at this stage, to further the progress and development of the Company.</p> |
| 2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity. | YES | <p>The Company's Independent, Non-Executive Chairman is Dr John Prendergast, who is not the CEO of the Company.</p> |
| 2.6 A listed entity should have a program for inducting new directors and for periodically reviewing whether there is a need for existing directors to undertake professional development to maintain the skills and knowledge needed to perform their role as directors effectively. | YES | <p>The Nomination and Remuneration Committee is responsible to the Board for reviewing and recommending to the Board induction and professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities.</p> <p>As a result, the Company has in place a program for the induction of new Directors which is tailored to each new Director depending on their personal requirements, background skills, qualifications and experience and includes the provision of a formal letter of appointment and an induction pack containing sufficient information to allow the new Director to gain an understanding of the business of the Company, and the roles, duties and responsibilities of Directors and the Executive Team.</p> <p>All Directors are encouraged to undergo continual professional development and, subject to prior approval by the Chairman, all Directors have access to numerous resources and professional development training to address any skills gaps.</p> |

CORPORATE GOVERNANCE STATEMENT CONTINUED

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|--|-----------------|--|
| 3: Instill a culture of acting lawfully, ethically and responsibly | | |
| 3.1 A listed entity should articulate and disclose its values. | YES | <p>The Company's values are:</p> <ul style="list-style-type: none"> (a) Integrity; (b) Inclusivity; (c) Innovation; (d) Respect; and (e) Accountability. <p>The Company's values are available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> |
| <p>3.2 A listed entity should:</p> <ul style="list-style-type: none"> (a) have and disclose a code of conduct for its directors, senior executives and employees; and (b) ensure that the board or a committee of the board is informed of any material breaches of that code. | YES | <ul style="list-style-type: none"> (a) The Company has a Code of Conduct which applies to all Directors, senior executives and employees, available on the Company's website at https://recce.com.au/index.php/company/corporate-governance. (b) The Company ensures that the Board is informed of any material breaches under the Whistleblower Policy. |
| <p>3.3 A listed entity should:</p> <ul style="list-style-type: none"> (a) have and disclose a Whistleblower Policy; and (b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy. | YES | <ul style="list-style-type: none"> (a) The Company has adopted a Whistleblower Policy which establishes a system for the reporting, investigation and rectification of wrongdoing. The Whistleblower Policy is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance. (b) The Company ensures that the Board is informed of any material breaches under the Code of Conduct. |
| <p>3.4 A listed entity should:</p> <ul style="list-style-type: none"> (a) have and disclose an anti-bribery and corruption policy; and (b) ensure that the board or a committee of the board is informed of any material breaches of that policy. | YES | <ul style="list-style-type: none"> (a) The Company has adopted an Anti-bribery and Corruption Policy which sets out the Company's policy in relation to bribery, corruption and related improper conduct and establishes a process for the reporting of such conduct. The Anti-bribery and Corruption Policy is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance. (b) The Company ensures that the Board is informed of any material breaches under the Anti-bribery and Corruption Policy. |

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|--|-------------------|--|
| 4: Safeguard the integrity of corporate reports | | |
| <p>4.1 The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <p>(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, who is not the chair of the board,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the relevant qualifications and experience of the members of the committee; and</p> <p>(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p> | <p>YES</p> | <p>The Company has established an Audit and Risk Management Committee with Dr Alan Dunton, an independent Director, as Chair of the Committee. The Committee has three members, who are:</p> <p>(a) Dr Alan Dunton – Independent Non-executive Director;</p> <p>(b) Dr John Prendergast – Independent Non-executive Director; and</p> <p>(c) Mr James Graham – Managing Director and CEO.</p> <p>The attendance at each committee meeting is disclosed in the Company's Annual Report. A copy of the Audit and Risk Management Committee Charter is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> |
| <p>4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p> | <p>YES</p> | <p>Prior to the execution of the financial statements of the Company, the Company's Executive Director and CFO provided the Board with written assurances that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal controls which is operating effectively in all material aspects in relation to the Company's financial reporting risks.</p> |
| <p>4.3 A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.</p> | <p>YES</p> | <p>The Board ensures that any periodic corporate report the Company releases to the market that has not been subject to audit or review by an external auditor discloses the process taken to verify the integrity of its content.</p> |

CORPORATE GOVERNANCE STATEMENT CONTINUED

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|---|-----------------|---|
| 5: Make timely and balanced disclosure | | |
| 5.1 A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under ASX Listing Rule 3.1. | YES | The Company has adopted a Continuous Disclosure Policy which details the processes and procedures which have been adopted by the Company to comply with its continuous disclosure obligations as required under the ASX Listing Rules and other relevant legislation. The Continuous Disclosure Policy is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance . |
| 5.2 A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made. | YES | The Company ensure that the Board receives copies of all material market announcements promptly after they have been made. |
| 5.3 A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation. | YES | The Company ensure that ahead of any new and substantive investor or analyst presentations, a copy of the presentations materials are released to ASX Announcement Platform. |
| 6: Respect the rights of security holders | | |
| 6.1 A listed entity should provide information about itself and its governance to investors via its website. | YES | Shareholders can access information about the Company and its governance (including its Constitution and adopted governance policies) from the Company's website at https://recce.com.au/index.php/company/corporate-governance . |
| 6.2 A listed entity should have an investor relations program that facilitates effective two-way communication with investors. | YES | The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with its investors. The Strategy outlines a range of ways in which information is communicated to shareholders. A copy of the Company's Shareholder Communications Strategy policy is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance . |

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|--|-----------------|--|
| 6.3 A listed entity should disclose how it facilitates and encourages participation at meetings of security holders. | YES | <p>The Company encourages shareholder participate at the Company's general meetings through various means including:</p> <ul style="list-style-type: none"> (a) having the opportunity to ask questions of Directors at all general meetings; (b) ensuring that the auditor is present at AGMs to take shareholder questions on any issue relevant to their capacity as auditor; (c) ensuring that Directors are available to answer shareholder questions submitted by telephone, email and other means (where appropriate); and (d) providing Shareholders with the option of appointing a proxy to vote on their behalf. <p>Traditionally, the key forum for two-way communication between the Company and its shareholders is its AGM.</p> |
| 6.4 A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands. | YES | All substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands. |
| 6.5 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically. | YES | <p>Shareholders can register with the Company to receive email notifications when an announcement is made by the Company to the ASX.</p> <p>Shareholders can also elect to receive electronic communications via the Company's registry, Automatic Registry Services.</p> |

7: Recognise and manage risk

| | | |
|--|-----|---|
| 7.1 The board of a listed entity should: | YES | <p>The Company has established an Audit and Risk Management Committee with Dr Alan Dunton, an independent Director, as Chair of the Committee. The Committee has three members, who are:</p> <ul style="list-style-type: none"> (a) Dr Alan Dunton - Independent Non-executive Director; (b) Dr John Prendergast - Independent Non-executive Director; and (c) Mr James Graham - Managing Director and CEO. <p>The attendance at each committee meeting is disclosed in the Company's Annual Report. A copy of the Audit and Risk Management Committee Charter is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> |
| <p>(a) have a committee or committees to oversee risk, each of which:</p> <ul style="list-style-type: none"> (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p> | | |

CORPORATE GOVERNANCE STATEMENT CONTINUED

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|---|-----------------|---|
| <p>7.2 The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and that the entity is operating with due regard to the risk appetite set by the board; and</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p> | YES | <p>(a) The Audit and Risk Management Committee Charter sets out a requirement for the Audit and Risk Management Committee to review the Company's risk management framework on an annual basis.</p> <p>The Company monitors, evaluates and seeks to improve its risk management and internal control processes in line with the processes set out in its Risk Management Policy, a copy of which is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> <p>In addition, the Company has a number of other policies that directly or indirectly serve to reduce and/or manage risk, including:</p> <ul style="list-style-type: none"> (i) Continuous Disclosure Policy (ii) Code of Conduct (iii) Trading Policy <p>(b) The Audit and Risk Management Committee completed such a review during the current reporting period.</p> |
| <p>7.3 A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its governance, risk management and internal control processes.</p> | YES | <p>The Audit and Risk Management Committee Charter provides for the Audit and Risk Management Committee to monitor the need for an internal audit function. At this stage, due to the current size and nature of the existing Board and the magnitude of the Company's operations the Company does not have an internal audit function.</p> <p>The Company has adopted a Risk Management Policy which the Company follows. The Board of the Company and the Audit and Risk Management Committee will periodically review the Company's operations to evaluate the effectiveness of risk management and internal control processes of the Company.</p> |
| <p>7.4 A listed entity should disclose whether it has any material exposure to environmental or social risks and if it does, how it manages or intends to manage those risks.</p> | YES | <p>All material risks to economic, environmental and social sustainability risks will be announced to the market, in accordance with the requirements of the ASX Listing Rules and otherwise.</p> |

| ASX PRINCIPLES AND RECOMMENDATIONS | COMPLY (Yes/No) | EXPLANATION |
|---|-------------------|---|
| 8: Remunerate fairly and responsibly | | |
| <p>8.1 The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director;</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p> | <p>YES</p> | <p>The Company has established a Nomination and Remuneration Committee with Dr Alan Dunton, an independent Director, as Chair of the Committee. The Committee has three members, who are:</p> <p>(a) Dr Alan Dunton – Independent Non-executive Director;</p> <p>(b) Dr John Prendergast – Independent Non-executive Director; and</p> <p>(c) Mr James Graham – Managing Director and CEO.</p> <p>The attendance at each committee meeting is disclosed in the Company's Annual Report. A copy of the Nomination and Remuneration Committee Charter is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> |
| <p>8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p> | <p>YES</p> | <p>The Company's Corporate Governance Plan requires the Board to disclose its policies and practices regarding the remuneration of Non-Executive and Executive Directors and other senior employees. This disclosure is set out in the Remuneration Report section of the Company's Annual Report.</p> |
| <p>8.3 A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p> | <p>YES</p> | <p>The Company's Nomination and Remuneration Committee is responsible for the review and recommendation to the Board of any equity-based remuneration schemes offered to Directors and employees of the Company. Further, in accordance with the Nomination and Remuneration Committee Charter, the Nomination and Remuneration Committee is also responsible for recommending, on a case by case basis, for scheme participants to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Scheme.</p> <p>The Company's policy in this regard is set out in the Company's Nomination and Remuneration Committee Charter, a copy of which is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.</p> |

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

| | Note | 2021 \$ | 2020 \$ |
|--|--------|---------------------|--------------------|
| OTHER INCOME | 5 | 1,963,254 | 1,147,530 |
| EXPENSES | | | |
| Laboratory expenses | | (5,556,647) | (1,985,286) |
| Employee benefits expenses | 6 | (1,553,387) | (1,478,668) |
| Share-based payments expense | 21 | (5,217,955) | (55,204) |
| Depreciation and amortisation expenses | 12, 13 | (120,926) | (50,711) |
| Travel expenses | | (14,520) | (191,488) |
| Patent related costs | | (100,703) | (85,620) |
| Rental outgoings expenses | | (41,979) | (52,780) |
| Finance costs | 6 | (2,107) | (45,847) |
| Other expenses | 6 | (1,888,147) | (1,167,605) |
| Amortisation: Leases | 13 | (174,704) | (150,107) |
| Interest expense: Leases | | (10,034) | (10,596) |
| Advertising and marketing | | (695,511) | (190,355) |
| Donations | | (100,000) | - |
| | | (15,476,620) | (5,464,267) |
| LOSS BEFORE INCOME TAX | | (13,513,366) | (4,316,737) |
| Income tax expense | 8 | - | - |
| LOSS FOR THE YEAR | | (13,513,366) | (4,316,737) |
| Other comprehensive income for the year | | - | - |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | (13,513,366) | (4,316,737) |
| | | Cents | Cents |
| LOSS PER SHARE ATTRIBUTABLE TO THE OWNERS OF RECCE PHARMACEUTICALS: | | | |
| Basic loss per share for the year | 9 | (8.70) | (3.39) |
| Diluted loss per share for the year | 9 | (8.70) | (3.39) |

The above consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF
FINANCIAL POSITION
AS AT 30 JUNE 2021

| | Note | 2021 \$ | 2020 \$ |
|--------------------------------------|------|-------------------|------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 10 | 20,873,040 | 2,682,192 |
| Trade and other receivables | 11 | 245,484 | 41,364 |
| Other current assets | | 62,399 | 15,848 |
| TOTAL CURRENT ASSETS | | 21,180,923 | 2,739,404 |
| NON-CURRENT ASSETS | | | |
| Plant and equipment | 12 | 379,397 | 424,316 |
| Right of use asset | 13 | 121,235 | 80,388 |
| TOTAL NON-CURRENT ASSETS | | 500,632 | 504,704 |
| TOTAL ASSETS | | 21,681,555 | 3,244,107 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 14 | 627,903 | 495,499 |
| Provisions for employee benefits | 15 | 337,747 | 306,492 |
| Lease Liabilities | 16 | 112,585 | 83,235 |
| TOTAL CURRENT LIABILITIES | | 1,078,235 | 885,226 |
| NON-CURRENT LIABILITIES | | | |
| Provisions for employee benefits | 15 | 85,215 | 46,301 |
| Lease Liabilities | 16 | 14,364 | - |
| TOTAL NON-CURRENT LIABILITIES | | 99,579 | 46,301 |
| TOTAL LIABILITIES | | 1,177,814 | 931,527 |
| NET ASSETS | | 20,503,741 | 2,312,580 |
| EQUITY | | | |
| Share capital | 17 | 43,297,309 | 18,466,336 |
| Reserves | 18 | 8,678,057 | 1,804,503 |
| Accumulated losses | | (31,471,625) | (17,958,259) |
| TOTAL EQUITY | | 20,503,741 | 2,312,580 |

The above consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2021

| | Share Capital \$ | Reserves \$ | Accumulated Losses \$ | Total \$ |
|--|------------------------|------------------|-----------------------------|-------------------|
| BALANCE AT 1 JULY 2019 | 11,573,369 | 1,662,549 | (13,641,522) | (405,604) |
| COMPREHENSIVE INCOME: | | | | |
| Loss for the year | - | - | (4,316,737) | (4,316,737) |
| Other comprehensive loss | - | - | - | - |
| | - | - | (4,316,737) | (4,316,737) |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS: | | | | |
| Issuance of shares (net of cash-settled share issue costs) | 6,271,063 | - | - | 6,271,063 |
| Issuance of shares - Acuity Placement Deed | 150,000 | - | - | 150,000 |
| Options issued to lead manager as capital raising cost | (426,407) | 426,407 | - | - |
| Conversion of option into ordinary shares | 558,653 | - | - | 558,653 |
| Share-based payments | 55,204 | - | - | 55,204 |
| Transfer from reserve to share capital | 284,454 | (284,454) | - | - |
| | 6,892,967 | 141,953 | - | 7,034,920 |
| BALANCE AT 30 JUNE 2020 | 18,466,336 | 1,804,502 | (17,958,259) | 2,312,580 |
| BALANCE AT 1 JULY 2020 | 18,466,336 | 1,804,502 | (17,958,259) | 2,312,580 |
| COMPREHENSIVE INCOME: | | | | |
| Loss for the year | - | - | (13,513,366) | (13,513,366) |
| Other comprehensive loss | - | - | - | - |
| | - | - | (13,513,366) | (13,513,366) |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS: | | | | |
| Issuance of shares (net of cash-settled share issue costs) | 26,231,325 | - | - | 26,231,325 |
| Options issued to KMPs and employees | - | 5,131,685 | - | 5,131,685 |
| Options issued to lead manager | (3,018,244) | 3,018,244 | - | - |
| Conversion of options into ordinary shares | 255,249 | - | - | 255,249 |
| Share-based payments | 86,268 | - | - | 86,268 |
| Transfer from reserve to share capital | 1,276,375 | (1,276,375) | - | - |
| | 24,830,973 | 6,873,555 | - | 31,704,528 |
| BALANCE AT 30 JUNE 2021 | 43,297,309 | 8,678,057 | (31,471,625) | 20,503,741 |

The above consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF
CASH FLOWS
 FOR THE YEAR ENDED 30 JUNE 2021

| | Note | 2021 \$ | 2020 \$ |
|---|-----------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from Australian Taxation Office | | 1,566,031 | 1,284,670 |
| Payments to suppliers and employees | | (9,636,495) | (5,061,480) |
| Interest received | | 105,757 | 25,803 |
| Other income | | 108,858 | - |
| Interest and other costs of finance paid | | - | (56,443) |
| NET CASH USED IN OPERATING ACTIVITIES | 19 | (7,855,849) | (3,807,450) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of plant and equipment | | (76,007) | (5,944) |
| NET CASH USED IN INVESTING ACTIVITIES | | (76,007) | (5,944) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | - | 612,463 |
| Repayments of loans | | - | (1,349,870) |
| Advances to directors | | (40,193) | - |
| Repayment of lease liabilities | | (174,704) | (150,107) |
| Proceeds from issue of equity securities | | 27,950,000 | 6,979,716 |
| Proceeds from exercise of options | | 106,276 | - |
| Transaction costs related to issues of equity or convertible securities | | (1,718,675) | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | | 26,122,704 | 6,092,202 |
| Net increase/decrease in cash and cash equivalents held | | 18,190,848 | 2,278,808 |
| Cash and cash equivalent at the beginning of the year | | 2,682,192 | 403,384 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 10 | 20,873,040 | 2,682,192 |

The above consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

1: Corporate Information

The consolidated financial statements of Recce Pharmaceuticals Ltd ('the Company') and together with its controlled entities ('the Group') for the year ended 30 June 2021.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX) and the Frankfurt Stock Exchange (FSE).

2: Significant Accounting Policies**(a) New or amended Accounting Standards and Interpretations adopted**

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

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

(b) Basis of Preparation of the Financial Report

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of the Company and the Group comply with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared in accordance with the significant accounting policies disclosed below as adopted by the Group. Such accounting policies are consistent with the previous year unless stated otherwise.

The consolidated financial statements have been prepared on an accrual basis and are based on historical costs, except for the Consolidated Statement of Cash Flows.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise stated.

(c) Basis of Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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 Group. They are de-consolidated from the date that control ceases.

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

(d) Foreign Currency Translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Australian dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting year. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss.

Foreign exchange gains and losses are presented in profit or loss on a net basis within other income or other expenses, unless they relate to borrowings, in which case they are presented as part of finance costs.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was measured.

The functional currency of the subsidiaries is United States Dollars and British Pounds. At the end of the reporting year, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Recce Pharmaceuticals Ltd at the closing rate at the end of the reporting year and income and expenses are translated at the weighted average exchange rates for the year. All resulting exchange differences are recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

(e) Revenue Recognition

Interest Income

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

Research and Development (R&D) Tax Incentive

R&D tax incentives from the government (both Australian and overseas) are recognised when received or when the right to receive payment is established.

(f) Income Tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

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

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries, associates and joint ventures where the parent entity 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.

Current and deferred tax balances relating to amounts recognised directly in other comprehensive income and equity are also recognised directly in other comprehensive income and equity, respectively.

The Company and its wholly-owned subsidiaries have implemented the tax consolidation legislation for the whole of the financial year. The Company is the head entity in the tax consolidated group. These entities are taxed as a single entity and deferred tax assets and liabilities have been offset in these consolidated financial statements.

(g) Impairment of Non-Financial Assets

At the end of each reporting year the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(h) Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short-term, highly liquid investments with 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.

(i) Fair Values

Fair values may be used for financial asset and liability measurement as well as for sundry disclosures.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The principal or most advantageous market must be accessible to, or by, the Group.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use. In measuring fair value, the group uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

(j) Trade and Other Receivables

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward looking information to calculate the expected credit losses using a provision matrix.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

The Group has determined that the application of AASB 9 - *Financial Instrument's* impairment requirements does not have a material impact on receivables.

(k) Plant and Equipment

All plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

All plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

Depreciation on other assets is calculated on a reducing balance basis over the estimated useful life, or in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term, as follows:

- Certain laboratory machinery and equipment 10 - 15 years
- Office improvements 3 - 8 years

Each class of plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

Depreciation

Depreciation is calculated on a diminishing value basis over the estimated useful life as follows:

| Class of Fixed Asset | Depreciation Rate |
|--------------------------------------|-------------------|
| - Laboratory machinery and equipment | 8% - 40% |
| - Office furniture and equipment | 5% - 33% |
| - Computer equipment | 33% - 67% |
| - Library and website costs | 20% - 40% |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting year.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the assets' carrying amount and are included in profit or loss in the year that the item is derecognised.

(l) Research Expenditure

Research costs are expensed as incurred.

(m) Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) Borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the year of the loans and borrowings using the effective interest method.

Borrowings are derecognised from the statement of financial position when the obligation specified in the contract has been discharged, cancelled or expires. The difference between the carrying amount of the borrowing derecognised and the consideration paid is recognised in profit or loss as other income or finance costs.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year.

(o) Other Liabilities

Other liabilities comprises non-current amounts due to related parties that do not bear interest and are repayable within 366 days of the end of the reporting year. As these are non-interest bearing, fair value at initial recognition requires an adjustment to discount these loans using a market-rate of interest for a similar instrument with a similar credit rating (Group's incremental borrowing rate). The discount is credited to profit or loss immediately and amortised using the effective interest method.

(p) Employee Benefit Provisions*Short-term employee benefit obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled wholly within 12 months after the end of the reporting year are recognised in other liabilities in respect of employees' services rendered up to the end of the reporting year and are measured at amounts expected to be paid when the liabilities are settled.

Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable.

Other long-term employee benefits obligations

Liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the reporting year. They are recognised as part of 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 to the end of the reporting year. Consideration is given to expected future salaries and wages levels, experience of employee departures and years of service. Expected future payments are discounted using Australian corporate bond rates at the end of the reporting year with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Regardless of when settlement is expected to occur, liabilities for long service leave and annual leave are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting year.

(q) Contributed Equity

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(r) Share-Based Payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

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 cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

(s) Earnings/(Loss) Per Share*Basic earnings/(loss) per share*

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company, adjusted for the after-tax effect of preference dividends on preference shares classified as equity, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year.

Diluted earnings/(loss) per share

Earnings/(loss) used to calculate diluted earnings/(loss) per share are calculated by adjusting the basic earnings/(loss) by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

(t) Goods and Services Tax (GST)

Revenues and expenses are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

(u) Accounting Standards Issued But Not Yet Effective

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting years, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements.

(v) Rounding of Amounts to Nearest Dollar

In accordance with *ASIC Corporations (Rounding of Financial/Directors' Reports) Instrument 2016/191*, the amounts in the consolidated financial statements have been rounded to the nearest dollar.

(w) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the consolidated financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The Company 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 either the Trinomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting year but may impact profit or loss and equity.

Impairment of non-financial assets

The Company assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to

prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Company reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Recovery of deferred tax assets

The deferred tax assets as calculated under Note 8 have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

Coronavirus (COVID-19) pandemic

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

3: Going Concern

For the year ended 30 June 2021 the Group recorded a loss of \$13,513,366 (2020: \$4,316,737) and had net cash outflows from operating activities of \$7,855,849 (2020: \$3,807,450). On 30 September 2020 the Company raised \$27.95 million before costs from the issue of 21.5 million ordinary shares at \$1.30 (before capital raising costs). The Group currently has sufficient cash resources to fund its operations for the foreseeable future. The directors have reviewed the Group's financial position and are of the opinion that there are sufficient funds to meet the Group's working capital requirements and as at the date of this report.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

4: Segment Reporting**(a) Reportable segments**

The Directors have considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board of Directors) in allocating resources and have concluded that at this time there are no separate identifiable segments as the Group operates in only one business segment being research and development of pharmaceutical drugs. However, the Group operates in three geographic segments being Australia, UK and USA.

(b) Segment results

The following is an analysis of the Group's results by reportable segments:

| | Segment revenue and other income for the year | | Segment loss after tax for the year | |
|------------------------|--|-----------|--|-------------|
| | 2021 | 2020 | 2021 | 2020 |
| | \$ | \$ | \$ | \$ |
| Australia | 1,803,747 | 798,666 | (4,523,537) | (1,470,516) |
| USA | 134,174 | 348,095 | (336,488) | (640,917) |
| UK | 25,333 | 769 | (63,532) | (1,417) |
| Central Administration | - | - | (8,589,810) | (2,203,886) |
| | 1,963,254 | 1,147,530 | (13,513,366) | (4,316,737) |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment loss represents the loss after tax incurred by each segment. This is the measure reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance.

(c) Segment assets and liabilities

| | Segment assets at end of the financial year | | Segment liabilities at end of the financial year | |
|------------------------|--|-----------|---|---------|
| | 2021 | 2020 | 2021 | 2020 |
| | \$ | \$ | \$ | \$ |
| Australia | 357,577 | 398,271 | - | - |
| Central Administration | 21,323,978 | 2,845,835 | 1,177,814 | 931,528 |
| | 21,681,555 | 3,244,107 | 1,177,814 | 931,528 |

(d) Segment net assets/(liabilities)

| | 2021 | 2020 |
|------------------------|------------|-----------|
| | \$ | \$ |
| Australia | 357,577 | 398,272 |
| Central Administration | 20,146,164 | 1,914,308 |
| | 20,503,741 | 2,312,580 |

2021
\$2020
\$

5: Revenue and Other Income

Other Income:

| | | |
|--|-----------|-----------|
| Research and Development (R&D) tax incentive | 1,566,031 | 1,071,727 |
| Interest income | 105,757 | 25,803 |
| Other income | 71,351 | 50,000 |
| Other grants | 37,507 | - |
| Project Reimbursements - Canadian Government | 182,608 | - |
| Total other income | 1,963,254 | 1,147,530 |

6: Expenses

Employee Benefits Expenses:

| | | |
|---------------------------------|-----------|-----------|
| Salaries and wages | 1,434,177 | 1,328,040 |
| Superannuation expenses | 97,167 | 99,576 |
| Long service leave expenses | 9,557 | 21,209 |
| Payroll taxes | 12,486 | 29,843 |
| Total employee benefit expenses | 1,553,387 | 1,478,668 |

Finance Costs:

| | | |
|-------------------------------------|-------|--------|
| Interest from short-term borrowings | - | 44,448 |
| Bank fees and charges | 2,107 | 1,399 |
| Total finance costs | 2,107 | 45,847 |

Other Expenses:

| | | |
|--------------------------------------|-----------|-----------|
| Audit fees | 48,806 | 46,197 |
| Communication expenses | 8,019 | 8,225 |
| Computer maintenance and consumables | 47,244 | 28,165 |
| Consulting fees | 466,829 | 231,743 |
| Insurance expenses | 63,929 | 61,877 |
| Legal expenses | 193,969 | 106,176 |
| Listing and regulatory fees | 123,786 | 65,219 |
| Overseas listing and regulatory fees | 88,865 | - |
| Printing and stationery expenses | 35,475 | 36,537 |
| Roadshows and conferences | 134,616 | 115,274 |
| Sundry expenses | 676,609 | 468,192 |
| Total other expenses | 1,888,147 | 1,167,605 |

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FOR THE YEAR ENDED 30 JUNE 2021

| | 2021 \$ | 2020 \$ |
|--|------------|------------|
|--|------------|------------|

7: Auditor's Remuneration

During the year, the following fees were paid or payable for services to BDO Audit (WA) Pty Ltd (BDO) and its related practices (also referred to hereafter as BDO, network firms of BDO and non BDO firms):

Audit services

| | | |
|---|--------|--------|
| - BDO for audit and review of the consolidated financial statements | 48,806 | 46,197 |
|---|--------|--------|

8: Income Tax Expense

| | | |
|------------------------|--------------|-------------|
| Loss before income tax | (13,513,366) | (4,316,737) |
|------------------------|--------------|-------------|

The prima facie tax on loss from ordinary activities before income tax is reconciled to income tax as follows:

| | | |
|---|-------------|-------------|
| - Prima facie tax payable on loss from ordinary activities before income tax at 27.5% (2020: 27.5%) | (3,716,176) | (1,187,103) |
|---|-------------|-------------|

Add:

Non-allowable items:

| | | |
|---|-----------|-----------|
| - Share-based payments expense | 1,431,288 | 15,181 |
| - Expenses subject to R&D tax incentive | 2,169,886 | 1,171,418 |
| - Other non-allowable items | 14,439 | 29,437 |

Less:

| | | |
|--|-----------|-----------|
| - Non assessable income | (451,770) | (308,475) |
| - Tax losses and deferred tax not recognised | 552,333 | 279,542 |

| | | |
|---|----------|----------|
| Income tax attributable to the Group | - | - |
|---|----------|----------|

Deferred tax attributable to the Group

| | | |
|----------------------------|------------------|------------------|
| Tax losses carried forward | 2,249,758 | 2,545,594 |
| Accruals and provisions | 124,427 | 105,304 |
| Blackhole expenses | 490,960 | 144,327 |
| Patents | - | - |
| | 2,865,145 | 2,795,225 |

The Group's ability to use losses in the future is subject to the companies in the Group satisfying the relevant tax authority's criteria for using these losses.

| | 2021 \$ | 2020 \$ |
|--|--------------------|--------------------|
| 9: Loss Per Share | | |
| The following reflects the loss and share data used in the calculations of basic and diluted losses per share: | | |
| Loss attributable to the members of the Company | (13,513,366) | (4,316,737) |
| | No. | No. |
| Weighted average number of shares | | |
| Weighted average number of ordinary shares used in calculating basic losses per share | 155,404,474 | 127,208,104 |
| | 155,404,474 | 127,208,104 |
| Loss per share (cents per share): | | |
| Basic loss for the year attributable to the members of the Company | (8.70) | (3.39) |
| Diluted loss for the year attributable to the members of the Company | (8.70) | (3.39) |
| | 2021 \$ | 2020 \$ |

10: Cash and Cash Equivalents

| | | |
|--------------|-------------------|------------------|
| Cash at bank | 20,873,023 | 2,682,152 |
| Cash on hand | 17 | 40 |
| | 20,873,040 | 2,682,192 |

Cash at bank and in hand bear floating interest rates between 0.51% and 1.30% depending on the amount on deposit. Refer to Note 20 for additional risk exposure analysis.

11: Trade and Other Receivables

CURRENT

| | | |
|---|----------------|---------------|
| Rebates receivable from Canadian Government | 183,444 | - |
| Sundry debtors | 4,325 | 5,378 |
| Net GST receivable | 57,715 | 35,986 |
| | 245,484 | 41,364 |

Refer to Note 20 for additional risk exposure analysis.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

| | 2021 \$ | 2020 \$ |
|---|----------------|----------------|
| 12: Plant and Equipment | | |
| Laboratory machinery and equipment | | |
| - at cost | 530,462 | 507,449 |
| - accumulated depreciation | (218,722) | (157,857) |
| | 311,740 | 349,592 |
| Office furniture and equipment | | |
| - at cost | 49,497 | 28,537 |
| - accumulated depreciation | (32,697) | (10,020) |
| | 16,800 | 18,517 |
| Computer equipment | | |
| - at cost | 40,853 | 30,630 |
| - accumulated depreciation | (35,887) | (23,195) |
| | 4,966 | 7,435 |
| Office improvements | | |
| - at cost | 78,646 | 56,835 |
| - accumulated depreciation | (34,132) | (9,808) |
| | 44,514 | 47,027 |
| Library | | |
| - at cost | 4,379 | 4,379 |
| - accumulated depreciation/amortisation | (3,057) | (2,726) |
| | 1,322 | 1,653 |
| Website Development | | |
| - at cost | 2,797 | 2,797 |
| - accumulated depreciation/amortisation | (2,742) | (2,705) |
| | 55 | 92 |
| Total plant and equipment | 379,397 | 424,316 |

Reconciliations

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the current and previous financial year are set out below:

| | Laboratory machinery and equipment \$ | Office furniture and equipment \$ | Computer equipment \$ | Office improvements \$ | Library and website costs \$ | Total \$ |
|-----------------------|--|--|-----------------------------|------------------------------|---------------------------------------|-------------|
| 2021 | | | | | | |
| Beginning of the year | 349,592 | 18,517 | 7,435 | 47,027 | 1,745 | 424,316 |
| Additions | 23,013 | 20,960 | 10,223 | 21,811 | - | 76,007 |
| Depreciation | (60,865) | (22,677) | (12,692) | (24,324) | (368) | (120,926) |
| End of the year | 311,740 | 16,800 | 4,966 | 44,514 | 1,377 | 379,397 |
| 2020 | | | | | | |
| Beginning of the year | 388,442 | 19,533 | 9,172 | 49,716 | 2,220 | 469,083 |
| Additions | 3,375 | 784 | 1,785 | - | - | 5,944 |
| Depreciation | (42,225) | (1,800) | (3,522) | (2,689) | (475) | (50,711) |
| End of the year | 349,592 | 18,517 | 7,435 | 47,027 | 1,745 | 424,316 |
| | | | | 2021 | | 2020 |
| | | | | \$ | | \$ |

13: Right of Use Assets

| | | |
|-----------------------------------|----------------|---------------|
| Land and buildings - right-of-use | 295,939 | 230,495 |
| Less: Current year amortisation | (174,704) | (150,107) |
| | 121,235 | 80,388 |

The Company leases land and buildings for its offices under agreements of between one to five years. On renewal, the terms of the leases are renegotiated.

14: Trade and Other Payables

CURRENT

Unsecured liabilities

| | | |
|---------------------------|----------------|----------------|
| Trade payables | 487,321 | 159,486 |
| Employee related payables | 52,582 | 101,940 |
| Sundry creditors | 88,000 | 234,073 |
| | 627,903 | 495,499 |

NOTES TO THE
CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2021

| | 2021 \$ | 2020 \$ |
|---|----------------|----------------|
| 15: Provisions for Employee Benefits | | |
| CURRENT | | |
| <i>Unsecured liabilities</i> | | |
| Annual leave | 153,765 | 139,804 |
| Sick leave | 183,982 | 137,332 |
| Long service leave | - | 29,356 |
| | 337,747 | 306,492 |
| NON-CURRENT | | |
| Long service leave | 85,215 | 46,301 |

16: Lease Liabilities

| | | |
|-----------------|---------|--------|
| CURRENT | | |
| Lease liability | 112,585 | 83,235 |
| NON-CURRENT | | |
| Lease liability | 14,364 | - |

17: Share Capital

| | 2021 | | 2020 | |
|---|--------------------|-------------------|--------------------|-------------------|
| | No. | \$ | No. | \$ |
| Movements in ordinary shares on issue: | | | | |
| Opening balance | 136,071,787 | 18,466,336 | 107,129,919 | 11,573,369 |
| Shares issued during the year: | | | | |
| - shares issued to KMP ¹ and consultants | 78,272 | 86,268 | 195,655 | 55,204 |
| - conversion of performance shares ² | 14,796,348 | 1,220,699 | - | - |
| - Acuity Placement Deed ³ | - | - | 750,000 | 150,000 |
| - new shares issued from placement (net costs) ⁴ | 21,500,000 | 23,213,081 | 26,032,477 | 5,844,656 |
| - new shares issued on options exercised | 1,331,440 | 255,249 | 1,963,736 | 558,653 |
| | 37,706,060 | 24,775,297 | 28,941,868 | 6,608,513 |
| - Transfer from reserves to share capital | - | 55,676 | - | 284,454 |
| | - | 55,676 | - | 284,454 |
| Total⁵ | 173,777,847 | 43,297,309 | 136,071,787 | 18,466,336 |

1 Refer to Note 21 for a summary of shares issued to consultants, employees and KMP during the period.

2 The milestones associated with 7,398,174 of the Company's Class C Performance Shares and 7,398,174 of the Company's Class D Performance Shares were met resulting in the issue of 14,796,348 ordinary fully paid shares.

3 During the year ended 30 June 2019, the Company entered into a Controlled Placement Deed ('CPD') with Acuity Capital Investment Management Pty Ltd as trustee for The Acuity Capital Holdings Trust ('Acuity'). The CPD grants an option to Acuity to issue Recce shares at the discretion of Recce, and which Acuity has the discretion to either accept or decline. Recce may at any time cancel the CPD and buy back the collateral shares for no consideration. On 15 February 2019, 4,500,000 Ordinary shares were issued to Acuity Capital as collateral shares pursuant to the Controlled Placement Deed, however as at 30 June 2019 none of the options available under this facility had been exercised, and no accounting recognition was required. During financial year ended 30 June 2020, 750,000 ordinary shares were issued at 20 cents per share. There were no changes during the year ended 30 June 2021.

4 On 30 September 2020, the Company issued 21,500,000 ordinary shares raising \$27,950,000 (before capital raising costs). Total capital raising costs were \$4,736,919 comprising cash component of \$1,718,675 and options fee component of \$3,018,244 (refer Note 21).

5 At 30 June 2021, 173,777,847 ordinary shares on issue were quoted on the ASX.

Options from shares issued

The following options remain outstanding at each respective reporting date:

| Particulars | Issue Date | Exercise Date | Exercise Price cents | 2021 No. | 2020 No. |
|-------------|------------|---------------|----------------------|-------------------|------------------|
| Options | 16-Jun-17 | 21-Jun-21 | 25.93 | - | 141,000 |
| Tranche 1 | 19-Jul-17 | 19-Jul-20 | 21.71 | - | 59,880 |
| Tranche 2 | 06-Sep-17 | 25-Aug-20 | 18.72 | - | - |
| Tranche 3 | 29-Sep-17 | 29-Sep-20 | 17.80 | - | - |
| Tranche 4 | 02-Nov-17 | 01-Nov-20 | 20.40 | - | 127,470 |
| Tranche 5 | 01-Dec-17 | 30-Nov-20 | 20.96 | - | 124,069 |
| Tranche 6 | 17-Jan-18 | 10-Jan-21 | 19.88 | - | 130,804 |
| Tranche 7 | 16-Feb-18 | 13-Feb-21 | 19.81 | - | 65,617 |
| Options | 15-Feb-19 | 15-Feb-23 | 16.80 | 1,117,400 | 1,800,000 |
| Options | 13-Dec-19 | 19-Feb-23 | 31.20 | 1,250,000 | 1,250,000 |
| Options | 30-Sep-20 | 30-Sep-23 | 156.00 | 3,750,000 | - |
| Options | 22-Feb-21 | 22-Feb-26 | 156.00 | 8,415,000 | - |
| | | | | 14,532,400 | 3,698,840 |

CONSOLIDATED FINANCIAL STATEMENTS

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| | Note | 2021 \$ | 2020 \$ |
|----------------------------|-------|------------------|------------------|
| 18: Reserves | | | |
| Performance shares reserve | 18(a) | 223,782 | 1,444,481 |
| Options reserve | 18(b) | 8,454,275 | 360,022 |
| | | 8,678,057 | 1,804,503 |

(a) Performance shares reserve

The performance shares reserve is used to recognise the fair value of Performance Shares issued to Executives and Non-Executive Directors.

Movements of performance shares reserve:

| | | | |
|--|--|----------------|------------------|
| At beginning of year | | 1,444,481 | 1,444,481 |
| Conversion of Class C performance shares | | (821,198) | - |
| Conversion of Class D performance shares | | (399,501) | - |
| At end of year | | 223,782 | 1,444,481 |

(b) Options reserve

The options reserve is used to recognise the fair value of options issued.

Movements of options reserve

| | | | |
|---|--|------------------|----------------|
| At beginning of year | | 360,022 | 146,818 |
| Options issued to KMPs and employees ¹ | | 5,131,685 | - |
| Options issued to lead manager ² | | 3,018,244 | 426,407 |
| Conversion of options into ordinary shares | | (55,676) | (213,203) |
| At end of year | | 8,454,275 | 360,022 |

1 Refer to Note 21.

2 Refer to Note 17.

19: Cash Flow Information**Reconciliation of loss after income tax to net cash flow from operating activities:**

| | | | |
|---|--|--------------------|--------------------|
| Loss for the year | | (13,513,366) | (4,316,737) |
| Adjustments and non-cash items: | | | |
| - Depreciation and amortisation | | 120,926 | 50,711 |
| - Share-based payments expense | | 5,217,955 | 55,204 |
| - Accounting for lease assets and liabilities | | 174,704 | 150,107 |
| Change in operating assets and liabilities | | | |
| - Increase in trade and other receivables | | (204,120) | (4,847) |
| - Increase in other current assets | | (6,538) | (2,648) |
| - Increase in trade and other payables | | 284,421 | 177,825 |
| - Increase in provisions for employee benefits | | 70,169 | 82,935 |
| - Increase in other liabilities | | - | - |
| Net cash outflow from operating activities | | (7,855,849) | (3,807,450) |

20: Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of markets forecasts for interest rate and foreign exchange prices. Liquidity risk is monitored through the development of future cash flow forecasts.

Risk management is carried out by Management and overseen by the Board of Directors.

The main risks arising for the Group are foreign exchange risk, interest rate risk, credit risk and liquidity risk. The carrying values of the Group's financial instruments are as follows:

| | 2021 \$ | 2020 \$ |
|-------------------------------------|------------|------------|
| Financial Assets | | |
| <i>At amortised cost</i> | | |
| Cash and cash equivalents | 20,873,040 | 2,682,192 |
| Trade and other receivables | 245,484 | 41,364 |
| | 21,118,524 | 2,723,556 |
| Financial Liabilities | | |
| <i>At amortised cost</i> | | |
| Trade payables and sundry creditors | 575,321 | 393,559 |
| Loans payable | - | - |
| R&D Advance | - | - |
| | 575,321 | 393,559 |

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' accounting purposes.

(a) Market Risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises from future commercial transactions denominated in a currency that is not the Group's functional currency. Over the next 12 months the Group will enter into contracts with various research organisations in the USA, Canada and Netherlands to perform numerous laboratory tests as well as use the services of an expert consultants in the USA, Canada and The Netherlands that will result in approximately US\$1.175 million, CDN\$0.091 & EUR\$0.076 million in expenditure.

(ii) Interest Rate Risk

The Group is exposed to interest rate risk due to variable interest being earned on its interest-bearing bank accounts. At the end of the reporting year, the Group had the following interest-bearing financial instruments:

| | 2021 | | 2020 | |
|---------------------------|---------------------|---------------|---------------------|---------------|
| | Weighted average | Balance \$ | Weighted average | Balance \$ |
| Cash and cash equivalents | 0.58% | 20,873,023 | 1.03% | 2,682,152 |

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(b) Credit Risk

Credit risk is the risk of financial loss to the Group if a counter party to a financial instrument fails to meet its contractual obligations. During the year credit risk has principally arisen from the financial assets of the Group, which comprises cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with the maximum exposure equal to the carrying amount of the instruments.

The carrying amount of financial assets included in the Consolidated Statement of Financial Position represents the Group's maximum exposure to credit risk in relation to those assets. The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, credit worthy third parties and such collateral is not requested nor is it the Group's policy to securities its trade and other receivables. Receivable balances are monitored on an ongoing basis with the result that the Group does not have a significant exposure to bad debts.

The Group has no significant concentrations of credit risk within the Group except for the following:

| | Rating | 2021 \$ | 2020 \$ |
|---|--------|------------|------------|
| Cash held with BankWest Bank | AA- | 1,299,443 | 2,162,547 |
| Cash held with National Australian Bank | AA- | 2 | 250,021 |
| Cash held with ME Bank | BBB | 19,573,478 | 250,529 |
| Cash held with American Express | N/A | 100 | 19,055 |
| | | 20,873,023 | 2,682,152 |

The Group's primary banker is BankWest. The Board considers the use of this financial institution, which has a rating of AA- from Standards and Poors, to be sufficient in the management of credit risk with regards to these funds.

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions.

The Directors and Management monitor the cash outflow of the Group on an on-going basis against budget and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

The financial liabilities the Group had at reporting date were trade payables, employee related payables, sundry creditors, loan payables, R&D advance and lease liability incurred in the normal course of the business. Trade payables were non-interest bearing and were deducted within the normal 30-60 day term of creditor payments.

The table below reflects the respective undiscounted cash flows for financial liabilities existing at end of reporting year:

| Contractual maturities of financial liabilities | <6 months | >6-12 months | >12 months | Total contractual cash flows | Carrying amount |
|---|----------------|--------------|------------|------------------------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ |
| 30 June 2021 | | | | | |
| Trade payables | 487,321 | - | - | 487,321 | 487,321 |
| Employee related payables | 52,582 | - | - | 52,582 | 52,582 |
| Sundry creditors | 88,000 | - | - | 88,000 | 88,000 |
| Lease liability | 112,585 | - | - | 112,585 | 112,585 |
| | 740,488 | - | - | 740,488 | 740,488 |
| 30 June 2020 | | | | | |
| Trade payables | 159,486 | - | - | 159,486 | 159,486 |
| Employee related payables | 101,940 | - | - | 101,940 | 101,940 |
| Sundry creditors | 234,073 | - | - | 234,073 | 234,073 |
| Lease liability | 83,235 | - | - | 83,235 | 83,235 |
| | 578,734 | - | - | 578,734 | 578,734 |

At 30 June 2021, the Group had sufficient cash to meet the financial liabilities as and when they are due and payables.

(d) Fair Value Hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (i) Level 1 - the instrument has quoted prices (unadjusted) in active markets for identical assets and liabilities;
- (ii) Level 2 - a valuation technique using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices); or
- (iii) Level 3 - a valuation technique using inputs that are not based on observable market data (unobservable inputs).

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| | 2021 \$ | 2020 \$ |
|--|------------|------------|
| 21: Share-Based Payments | | |
| Share-based payments expense recognised during the financial year: | | |
| Issue of 44,444 shares to Arthur Kollaras | - | 9,999 |
| Issue of 43,478 shares to Justin Ward | - | 10,000 |
| Issue of 107,733 shares to Spark Plus | - | 35,205 |
| Issue of 18,272 shares to Spark Plus | 19,368 | - |
| Issue of 60,000 shares to Alan Dunton ¹ | 66,900 | - |
| Issue of 2,250,000 options to James Graham ² | 1,372,109 | - |
| Issue of 1,500,000 options to Michele Dilizia ² | 914,739 | - |
| Issue of 1,125,000 options to Alan Dunton ² | 686,054 | - |
| Issue of 2,175,000 options to John Prendergast ² | 1,326,372 | - |
| Issue of 600,000 options to Justin Ward ² | 365,896 | - |
| Issue of 400,000 options to Arthur Kollaras ² | 243,930 | - |
| Issue of 365,000 options to other employees ² | 222,587 | - |
| Total share-based payments recognised through P&L | 5,217,955 | 55,204 |
| Issue of 3,750,000 Corporate Advisor Options ³ | 3,018,244 | 426,407 |
| Total share-based payments recognised through equity | 3,018,244 | 426,407 |

1 Issued 60,000 shares on 4 December 2020 as part of remuneration for his services.

Fair value of share options granted to executive and employees

2 The fair value of the 8,415,000 Share Options was calculated using the Black-Scholes model. The assumptions used in calculating the fair value of Share Options, were:

- exercise price: \$1.56;
- grant date: 9 October 2020;
- grant date share price: \$1.115;
- value per option at grant date: \$0.6098;
- issue date: 22 February 2021;
- dividend yield: 0.0%;
- risk-free rate based on the Australian Treasury bond rate for five years, to align with the term of the options: 0.32%;
- expected volatility derived from the share volatility of compatible listed companies over five years, to align with the term of the options: 77.0%; and
- expected life of the Share Option: five years.

Fair value of share options granted to corporate advisors

3 Where the fair value of services rendered by consultant during the period could not be reliably measured, these are measured by reference to the fair value of equity instruments granted. The estimate of the fair value of the services is measured based on a Black-Scholes option valuation methodology. The fair value of the 3,750,000 Share Options was calculated using the Black-Scholes model. The assumptions used in calculating the fair value of share Options, were:

- exercise price: \$1.56;
- grant date share price: \$1.115;
- grant date: 23 October 2020;
- issue date: 30 September 2020;
- dividend yield: 0.0%;
- 3,750,000 options issued to Shaw and Partners as part of payment for capital raising fee;
- risk-free rate based on the Australian Treasury bond rate for three years, to align with the term of the options: 0.19%;
- expected volatility derived from the share volatility of compatible listed companies over three years, to align with the term of the options: 81.0%; and
- expected life of the Share Option: three years.

The value brought to account as share-based payment expenses in the year ended 30 June 2021 was \$5,217,955 relating to the fair value of options granted to the executive and employees was expensed to the profit and loss. The fair value of options granted to the Corporate Advisors for the capital raising amounting to \$3,018,244 has been recognised as transaction costs on share issue.

22: Related Party Transactions

Parent entity

The ultimate parent entity within the Group is Recce Pharmaceuticals Ltd.

Subsidiaries

Interests in subsidiaries are disclosed in Note 24.

| | 2021 \$ | 2020 \$ |
|--|------------------|------------------|
| Key management personnel compensation | | |
| Short-term employee benefits | 963,521 | 1,002,908 |
| Post-employment benefits | 134,013 | 140,432 |
| Termination payments | 99,805 | - |
| Share-based payments | 4,976,000 | 19,999 |
| | 6,173,340 | 1,163,339 |

The following transactions occurred with related parties:

Superannuation contributions

| | | |
|--|--------|--------|
| Contributions to superannuation funds on behalf of employees | 73,012 | 70,808 |
|--|--------|--------|

Loans to key management personnel

At year end, expense advances repayable by Mr James Graham totalled \$40,193 (2020: Nil).

Other transactions with key management personnel

During the financial year, consulting fees for technical services totalling \$406,770 (2020: Nil) were paid to an entity associated with Mr A Dunton. All payments were made on normal commercial terms and conditions. There were no other related party transactions during the financial year.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

23: Parent Entity Information

The following information relates to the parent entity, Recce Pharmaceuticals Ltd, as at 30 June 2021. The information presented hereto has been prepared using accounting policies consistent with those presented in Note 2.

| | 2021 \$ | 2020 \$ |
|---|---------------------|--------------------|
| (a) Summarised statement of financial position | | |
| Current assets | 21,180,923 | 2,739,404 |
| Non-current assets | 500,632 | 504,704 |
| Total assets | 21,681,555 | 3,244,107 |
| Current liabilities | 1,078,235 | 885,226 |
| Non-current liabilities | 99,579 | 46,301 |
| Total liabilities | 1,177,814 | 931,527 |
| Share capital | 43,297,309 | 18,466,336 |
| Reserves | 8,678,057 | 1,804,503 |
| Accumulated losses | (31,471,625) | (17,958,259) |
| Net Assets/(Liabilities) | 20,503,741 | 2,312,580 |
| (b) Summarised consolidated statement of profit or loss and other comprehensive income | | |
| Loss for the year | (13,513,366) | (4,316,737) |
| Other comprehensive income | - | - |
| Total comprehensive loss for the year | (13,513,366) | (4,316,737) |

The parent entity has no contingent liabilities as at 30 June 2021.

24: Interest in Subsidiaries

| | Country of Incorporation | Percentage Owned | |
|---------------------------|--------------------------|------------------|-----------|
| | | 2021 % | 2020 % |
| Parent entity | | | |
| Recce Pharmaceuticals Ltd | Australia | - | - |
| Subsidiaries | | | |
| Recce (USA) LLP | United States | 100 | 100 |
| Recce (UK) Limited | United Kingdom | 100 | 100 |

25: Events Subsequent to Reporting Date

For any potential impacts of COVID-19 (both pre and post reporting date), refer to Note 2(w).

Other than the above, no matters or circumstances have arisen since the end of the financial year, which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or state of affairs of the Group in future financial years.

26: Contingent Liabilities

On 20 August 2015 the Company issued 8,754,423 class C Performance Shares and 8,754,423 class D Performance Shares to directors and key management personnel of the Company. On 26 June 2020 the Company announced that milestones for conversion of 7,398,174 of the Class C Performance Shares into fully paid ordinary shares had been achieved, but that the Company had determined that the remaining 1,356,249 Class C Performance Shares were ineligible for conversion. On 17 August 2020 the Company announced that milestones for conversion of 7,398,174 of the Class D Performance Shares into fully paid ordinary shares had been achieved, but that the Company had determined that the remaining 1,356,249 Class D Performance Shares were ineligible for conversion.

The holders of the 1,356,249 class C Performance Shares and 1,356,249 Class D Performance Shares that the Company determined to be ineligible contest the Company's decision of ineligibility for conversion and have commenced proceedings, seeking orders that the Class C and Class D Performance Shares held by them be converted into fully paid ordinary shares in the Company. If those holders are successful in that litigation then the Company expects that it will be ordered to convert the 1,356,249 Class C Performance Shares and 1,356,249 Class D Performance Shares held by them into fully paid ordinary shares in the Company.

There were no other contingent liabilities as at 30 June 2021.

DIRECTOR'S DECLARATION

The Directors of the Company declare that:

1. The consolidated financial statements comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and accompanying notes, as set out on pages 44 to 65, are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standards and the *Corporations Regulations 2001*; and other mandatory reporting requirements; and
 - b. give a true and fair view of the financial position as at 30 June 2021 and of the performance for the year ended on that date of the Group;
2. The Executive Chairman and Chief Financial Officer have each declared that:
 - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. The financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. The financial statements and notes for the financial year give a true and fair view;
3. In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



John Prendergast
Non-Executive Chairman

31 August 2021

INDEPENDENT AUDITOR'S REPORT



Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Recce Pharmaceuticals Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Recce Pharmaceuticals Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, 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:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- (ii) 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 Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.



Accounting of share-based payments

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|--|---|
| <p>During the financial year ended 30 June 2021, the Group issued equity instruments, in the form of shares and options to key management personnel, employees and other consultants as detailed in Note 2(w), Note 17 and Note 21.</p> <p>The Group performed valuations of the options and recorded the related share-based payment expense or share capital costs in accordance with the relevant accounting standard.</p> <p>Due to the judgemental estimates used in determining the value of the fair value of the share-based payments, we consider the accounting for the share-based payments to be a key audit matter.</p> | <p>Our audit procedures in respect of this area included but were not limited to the following:</p> <ul style="list-style-type: none"> • Reviewing relevant supporting documentation to obtain an understanding of the contractual nature and terms and conditions of the share-based payment arrangements; • Reviewing market announcements made by the entity and board minutes to ensure all new share-based payments granted during the year have been accounted for; • Holding discussion with management to understand the share-based payment transactions in place; • Reviewing management's determination of the fair value of the share-based payments granted, considering the appropriateness of the valuation models used and assessing the valuation inputs; • Assessing management's determination of achieving non-market vesting conditions of the performance shares issued in prior periods; • Involving our internal valuation specialists to assess the assumptions and inputs used in the valuation; • Assessing the allocation of the share-based payment expense over management's expected vesting period; and • Assessing the adequacy of the disclosure in Note 2(w), Note 17 and Note 21 in the financial report. |



Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company'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 Company or to cease operations, or has 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 (<http://www.auasb.gov.au/Home.aspx>) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 27 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Recce Pharmaceuticals Ltd, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Neil Smith', written over a small, faint BDO logo.

Neil Smith

Director

Perth, 31 August 2021

ASX ADDITIONAL INFORMATION

Shareholder Information as at 27 August 2021

Additional information required by the Australian Securities Exchange listing rules and not shown elsewhere in this report is as follows:

(a) Distribution of equity securities (as at 27 August 2021)

The number of shareholders, option holders and performance right holders by size of holding are:

| Holding | Number of Shareholders | Number of Shares | % Issued Share Capital |
|------------------|------------------------|--------------------|------------------------|
| 1 - 1,000 | 1,187 | 775,123 | 0.45 |
| 1,001 - 5,000 | 1,592 | 4,662,475 | 2.68 |
| 5,001 - 10,000 | 695 | 5,760,154 | 3.31 |
| 10,001 - 100,000 | 1,221 | 39,456,167 | 22.70 |
| 100,001 and over | 198 | 123,123,928 | 70.85 |
| Total | 4,893 | 173,777,847 | 100.00 |

| Holding | Option Holders | Number of Options | % Issued Share Capital |
|------------------|----------------|-------------------|------------------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | 1 | 10,000 | 0.07 |
| 10,001 - 100,000 | 7 | 475,000 | 3.27 |
| 100,001 and over | 13 | 14,047,400 | 96.66 |
| Total | 21 | 14,532,400 | 100.00 |

| Holding | Performance Right Holders | Number of Shares | % Issued Share Capital |
|------------------|---------------------------|-------------------|------------------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 and over | 10 | 11,466,921 | 100.00 |
| Total | 10 | 11,466,921 | 100.00 |

ASX ADDITIONAL INFORMATION CONTINUED

(b) Twenty largest shareholders (as at 27 August 2021)

The names of the twenty largest holders of quoted shares are:

| Name | Number of Shares | % |
|---|--------------------|---------------|
| 1 Graham Melrose and Olga Melrose | 38,428,311 | 22.11 |
| 2 LDU Pty Ltd | 6,418,237 | 3.69 |
| 3 HSBC Custody Nominees (Australia) Limited | 6,046,316 | 3.48 |
| 4 Mr James Graham | 6,031,932 | 3.47 |
| 5 Acuity Capital Investment Mangement Pty Ltd <Acuity Capital Holdings A/C> | 4,500,000 | 2.59 |
| 6 Ms Michele Keryn Dilizia | 3,543,485 | 2.04 |
| 7 Acewood Investments Pty Ltd <Chivers Super Fund A/C> | 3,184,616 | 1.83 |
| 8 BNP Paribas Noms Pty Ltd <Drp> | 2,329,590 | 1.34 |
| 9 Querion Pty Ltd | 2,100,000 | 1.21 |
| 10 Pejay Pty Limited | 1,860,000 | 1.07 |
| 11 Mr John James Liddelow <John Liddelow A/C> | 1,525,000 | 0.88 |
| 12 Mark David Swinn | 1,217,002 | 0.70 |
| 13 Shortis Natural Therapies Pty Limited <Shortis Family A/C> | 1,200,000 | 0.69 |
| 14 Mr Nikolai Shirobokov & Mrs Svetlana Shirobokov | 1,102,974 | 0.63 |
| 15 Citicorp Nominees Pty Limited | 1,093,709 | 0.63 |
| 16 Mccray Investments Pty Ltd <Mccray Fam Sf A/C> | 1,002,500 | 0.58 |
| 17 Arthur Graham | 1,001,807 | 0.58 |
| 18 Mr Robert Cerny & Mrs Zaphiero John Cerny <Parez Super Fund A/C> | 1,000,000 | 0.58 |
| 19 Mr Leslie John Field & Mrs Eve Field | 938,504 | 0.54 |
| 20 BNP Paribas Nominees Pty Ltd Acf Clearstream | 920,439 | 0.53 |
| Total | 85,444,422 | 49.17 |
| Total issued capital - selected security class(es) | 173,777,847 | 100.00 |

(c) Substantial shareholders

Substantial holders in the Company are set out below (based on voting interest in fully paid ordinary shares) as at 27 August 2021.

| Name | Number of Shares | % |
|-------------------------------------|------------------|-------|
| Mr Graham Melrose & Ms Olga Melrose | 38,428,311 | 22.11 |

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction. There are no voting rights attached to any Options or Performance Shares on issue.

(e) Share buyback

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

(f) Unmarketable parcels

There were 581 Shareholders holding less than a marketable parcel, totaling 236,414 shares.

CORPORATE DIRECTORY

FOR THE YEAR ENDED 30 JUNE 2021

Directors

Dr John Prendergast

Non-Executive Chairman

Dr Graham Melrose

Executive Director and Chief Research Officer
(resigned 3 July 2020)

Ms Michele Dilizia

Executive Director and Chief Scientific Officer

Mr James Graham

Managing Director and Chief Executive Officer

Dr Justin Ward

Executive Director and Principal Quality Chemist

Dr Alan Dunton

Non-Executive Director
(appointed 14 July 2020)

Company Secretary

Alistair McKeough

Chief Financial Officer

Justin Reynolds

Registered Office

Suite 10, 3 Brodie Hall Drive
Bentley WA 6102
Phone: +61 8 9362 9860

Share Register

Automic Pty Limited
Level 5, 126 Phillip Street
Sydney NSW 2000
Phone: 1300 288 664

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

Internet Address

www.recce.com.au

ASX Code

RCE

FSE Code

R9Q

Annual General Meeting

The Annual General Meeting will be held on the 22 November 2021.

Automic Pty Limited
Level 5/126 Phillip Street
Sydney NSW 2000

