

ASX Appendix 4D

Half-Year Financial Report to 31 December 2018

1. Details of reporting period

Name of Entity	Race Oncology Limited ("the Company")
ABN	61 149 318 749
Reporting Period	31 December 2018
Previous Corresponding Period	31 December 2017

2. Results for announcement to the market

Key information	31 December 2018	31 December 2017	Increase/ (decrease)	Amount change \$
Revenues from ordinary activities	-	-	-	-
Loss for the half-year	(2,026,978)	(3,488,470)	(42%)	1,461,492
Total comprehensive loss for the half-year attributable to members	(2,026,507)	(3,488,271)	(42%)	1,461,764
		Amount Per Security	Franked Amount Per Security	
Final Dividend		Nil	Nil	
Interim Dividend		Nil	Nil	
Previous Corresponding Period		Nil	Nil	
Record Date for Determining Entitlements		Not Applicable		

For further information, refer to the review of operations contained in the directors' report, which forms part of the attached condensed consolidated financial statements.

3. Net tangible asset backing

	31 December 2018	31 December 2017
Net tangible backing per ordinary security	2.52 cents	2.58 cents

4. Details of entities over which control has been gained or lost during the period

N/A

5. Details of Dividends

No dividend has been paid or recommended to be paid for the half-year ended 31 December 2018.

6. Details of dividend reinvestment plans

N/A

7 Details of associate and joint venture entities

N/A

8. Foreign entities

On 6 October 2017, the Company incorporated a new subsidiary in Belgium, (**Race Oncology, Company Number 0682664917**). There have been no significant financial transactions through the subsidiary at 31 December 2018.

9. Audit

This report has been based on accounts that have been subject to an audit review. There are no items of dispute with the auditor and the audit review is not subject to qualification.



Peter Molloy
Managing Director

27 February 2019



RACE ONCOLOGY LIMITED
ACN 149 318 749
INTERIM FINANCIAL REPORT 31 DECEMBER 2018

CONTENTS

	Page
Directors' Report	3
Auditor's Independence Declaration	6
Financial Report	7
Directors' Declaration	18
Independent Auditor's Review Report	19

Corporate Directory

Directors

Peter Molloy – Managing Director
William Garner – Non Executive Chairman
Chris Ntoumenopoulos – Non Executive Director
John Cullity – Non Executive Director

Company Secretary

Peter Webse

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Auditor

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Securities Exchange Listing

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Level 40, Central Park 152-158 St Georges Terrace
Perth, WA, 6000

ASX Code – RAC

RACE ONCOLOGY LIMITED
ACN 149 318 749
INTERIM FINANCIAL REPORT 31 DECEMBER 2018

DIRECTORS' REPORT

Your directors present the financial report of the Company for the half-year ended 31 December 2018.

DIRECTORS

The names and the particulars of the Directors of the Company during the half year and to the date of this report are:

Name	Status	Appointed
Peter Molloy	Managing Director	Appointed 1 July 2016
William Garner	Non-Executive Chairman	Appointed 1 July 2016
Chris Ntoumenopoulos	Non-Executive director	Appointed 21 April 2016
John Cullity	Non-Executive director	Appointed 6 April 2018

REVIEW OF OPERATIONS

On 16 July 2018, Race announced that the FDA had granted Bisantrene a Rare Paediatric Disease (RPD) designation for treatment of childhood AML (Acute Myeloid Leukaemia). This designation means Bisantrene has the opportunity to be awarded a Priority Review Voucher (PRV) at the time of marketing approval for childhood AML. The voucher, if awarded, provides rights to a fast-track FDA review which can be sold to other pharmaceutical companies. The value of the RPD and the potential for the PRV are additive to the value of the current FDA approval program, which is aimed at adult AML.

On 23 August, Race announced the termination of its representation agreement with CarthaGenetics and the consulting agreement with Gordon Beck, formerly head of business development for Race. The Company advised that Dr John Rothman would step down from his role as full-time Chief Scientific Officer for Race and continue on a part-time basis until the end of December 2018; subsequently, Dr Rothman agreed to continue providing some consulting services to the Company beyond December to assist with the IND (Investigational New Drug application).

On 17 September, Race announced it had executed an agreement with NSF Health Sciences (NSF) in Washington DC to facilitate its IND filing in the US for Bisantrene. NSF also will act as the US Agent for Race Oncology with the FDA, serving as Race's interface with the FDA regarding agency correspondence, IND amendments, protocol amendments, pharmacovigilance and other reporting. As stated in the most recent quarterly review of operations (26 October 2018), the Company's goal is file the IND by the end of Q1 2019 and we remain on track for this deadline.

On 27-29 September, Race attended and sponsored the first annual meeting of the International Academy for Clinical Haematology (IACH) in Paris. It was an important opportunity to increase Race's recognition and reputation with international haematological oncologists and to discuss clinical plans and NPP opportunities for Bisantrene. One of speakers and session chairs was Professor Borje Andersson, with whom the Company subsequently signed a consulting agreement (22 January 2019).

On 1 October 2018, Race announced an agreement with Mr Tom Lee of Houston, Texas. The agreement provides for Mr Lee to assist the Company with partnering, funding and clinical trial opportunities in the US, particularly in Houston. One important focus for Mr Lee has been to make introductions to opinion leaders and clinical trial groups at MD Anderson Cancer Center, with a focus on funding and conducting a paediatric trial of Bisantrene in support of the RPD designation.

On 1 November 2018, Race announced an agreement with Biosynergy Partners LLC (Biosynergy) to pursue transactions around Bisantrene. Biosynergy is a transaction consulting business owned by Dr John Cullity, a New York-based transaction consultant and a non-executive director of RAC. Under the Agreement, potential transactions include a sale, license, partnership, collaborative venture or other arrangement, whereby an interest in Bisantrene is transferred to a third party. Since 1 November, the Company has been actively working with Dr Cullity to identify and engage with potential partners, with the goal of negotiating and closing a Transaction during calendar 2019.

The primary rationale for undertaking the Biosynergy project is that the adult AML registration trial will require substantial funding that is currently beyond the capacity of Race. The Biosynergy project seeks to transfer the trial cost to a pharmaceutical partner, with the partner receiving licensing or other rights in exchange. The project may also lead to a licensing deal or transaction that provides non-dilutive funding to Race.

On 17 December 2018, Race announced that it had executed an agreement with TrueMed for distribution and sales of Bisantrene in Israel, under a Named Patient Program (NPP). Under the agreement, Race and TrueMed will share the value of all Bisantrene NPP sales in Israel, with 60% of sales turnover paid to Race and 40% retained by TrueMed. TrueMed will be responsible for gaining the approval of the Israeli Ministry of Health (IMOH) for local NPP distribution of Bisantrene, and sales cannot commence until that approval has been obtained. The agreement will operate for an initial period of three years, after which, it can be terminated with nine months' notice by either party.

RACE ONCOLOGY LIMITED
ACN 149 318 749
INTERIM FINANCIAL REPORT 31 DECEMBER 2018

REVIEW OF OPERATIONS (continued)

During the half-year, the Company discontinued its ongoing discussions with TargImmune around a potential research collaboration. Under the most recent collaboration structure discussed between the parties, Race would have been required to co-fund the research program and Race determined that its cash reserves were better deployed in funding its core clinical programs.

Also, during the half-year, the Company continued to seek Named Patient Program (NPP) usage in Europe, but without any demonstrable success, in terms of sales. In late September 2018, the Company was advised by a UK hospital that the hospital intended to place an NPP order for Bisantrene for an AML patient who had failed other treatments; the order was received by Durbin, Race's agent in the UK, but unfortunately, the patient rapidly progressed and died before the order could be filled. Race remains committed to achieving contemporary usage of Bisantrene by clinicians, either under NPP or via investigator-initiated trials. Dr Samar Al-Behaisi, Race's Chief Medical Officer, who is based in Zurich, is actively continuing to build relationships with key AML clinicians towards that goal.

Outlook

Race remains committed to achieving contemporary usage of Bisantrene by clinicians; in that regard, we expect future announcements in relation to investigator-initiated trials of Bisantrene in AML patients. Such trials, if they occur, would represent the first clinical use of Bisantrene in more than 25 years and we believe that gaining contemporary clinician experience may pave the way for future NPP sales. However, we currently expect that NPP sales, if achieved, will be of modest value.

We also expect to see progress on the IND filing, with 31 March 2019 being the current target date for filing. Because the IND has to be suitable to support a Phase 3 stage clinical program, the IND preparation is a significant undertaking and an important focus for the Race team and our technical consultants. The IND also requires Race to manufacture new drug product dedicated to and in sufficient quantity for the clinical trial; this is also an important focus for the team and represents a substantial cost commitment during 2019. Once the IND is filed, the Company will respond to any questions from the FDA and once these are resolved, the trial would be ready to start and may start, if and when funding is available to support it.

That funding is expected to come from a deal to be executed as a result of the Biosynergy licensing project that has been underway since November 2018. At the appropriate time, the Company will provide shareholders with an update on progress with this project, when material milestones are reached

FINANCIAL PERFORMANCE

The loss for the six months ended 31 December 2018 was \$2,026,978 or \$1,465,185 excluding share-based payments, a non-cash expense. This is significantly down on the loss of \$3,488,470 (\$2,164,424 excluding share based payments) for the 31 December 2017 half-year.

At 31 December 2018, the Company had \$2.08 million in cash reserves (compared with \$3.71 million at 30 June 2018), which despite the significant costs associated with the IND and manufacturing, current cash reserves are expected to cover cash needs at least through July 2019.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 22 January 2019, the Company announced that it had executed a consulting agreement with Professor Borje Andersson, who as mentioned in the review of operations was a speaker and session chair of the International Academy for Clinical Haematology (IACH) in Paris. Professor Borje Andersson will be working with the Race team on a range of value-adding programs for Bisantrene. The Company issued 420,000 options to Professor Borje Andersson in the form of compensation, exercisable at \$0.12 and expiring on 21 January 2024.

On 31 January 2019, the Company announced it had received a \$228,501 R&D Tax Incentive refund for the 2017/2018 financial year. The R&D Tax Incentive is an important Australian Government Program that refunds up to 43.5% of eligible expenditure on research and development.


RACE ONCOLOGY LIMITED
ACN 149 318 749
INTERIM FINANCIAL REPORT 31 DECEMBER 2018

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 6 of the financial report.

Signed in accordance with a resolution of directors made pursuant to s306(3) of the Corporations Act 2001.

On behalf of the Directors



Managing Director
Melbourne, Victoria
Dated: 27 February 2019

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To the Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit partner for the review of the financial statements of Race Oncology Limited for the period ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully



BENTLEYS
Chartered Accountants



DOUG BELL CA
Partner

Dated at Perth this 27th day of February 2019

Race Oncology Limited
Financial Report for the half-year ended 31 December 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

		Consolidated 31 December 2018	Consolidated 31 December 2017
	Note	\$	\$
Revenue			
Interest received		11,466	9,783
R&D tax incentive		228,501	170,262
Administrative expenses		(10,882)	(14,580)
Accounting and audit fees		(39,783)	(31,608)
Amortisation	3	(140,598)	(125,000)
Business development and marketing		(348,068)	(497,085)
Manufacturing and distribution		(376,651)	(545,178)
Corporate advice fees		(38,761)	(110,559)
Director fees		(108,588)	(105,750)
Employee benefits expense		(72,061)	(76,058)
Research and development expense		(447,136)	(656,622)
Share based payment expense	7	(561,793)	(1,324,046)
Share registry expense		(3,166)	(3,250)
Travel and accommodation		(31,440)	(55,749)
Other expenses		(88,018)	(123,030)
Results from operating activities		(2,026,978)	(3,488,470)
Loss before income tax			
Income tax expense		-	-
Loss for the period		(2,026,978)	(3,488,470)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation (net of tax)		471	199
Total comprehensive loss for the period net of tax		(2,026,507)	(3,488,271)
Basic and diluted loss per share (cents per share)		(2.62)	(5.47)

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

Race Oncology Limited
Financial Report for the half-year ended 31 December 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	Consolidated 31 December 2018 \$	Consolidated 30 June 2018 \$
CURRENT ASSETS			
Cash and cash equivalents		2,078,704	3,709,998
Trade and other receivables	2	234,158	431
Other assets		53,295	30,842
TOTAL CURRENT ASSETS		2,366,157	3,741,271
NON CURRENT ASSETS			
Intangible assets	3	4,358,536	4,499,134
TOTAL NON CURRENT ASSETS		4,358,536	4,499,134
TOTAL ASSETS		6,724,693	8,240,405
CURRENT LIABILITIES			
Trade and other payables	4	262,552	287,208
Provision		30,000	22,500
TOTAL CURRENT LIABILITIES		292,552	309,708
TOTAL LIABILITIES		292,552	309,708
NET ASSETS		6,432,141	7,930,697
SHAREHOLDERS' EQUITY			
Issued capital	5	15,422,621	14,456,463
Reserve	6	3,604,808	5,084,736
Reserve shares	5b	(800,000)	(800,000)
Accumulated losses		(11,795,288)	(10,810,502)
SHAREHOLDERS' EQUITY		6,432,141	7,930,697

The above condensed financial position should be read in conjunction with the accompanying notes.

Race Oncology Limited
Financial Report for the half-year ended 31 December 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

		Issued Capital	Accumulated Losses	Reserves	Total
Note		\$	\$	\$	\$
Balance at 1 July 2017		8,493,301	(4,756,960)	1,900,948	5,637,289
Loss attributable to members		-	(3,488,470)	-	(3,488,470)
Other comprehensive income for the period		-	-	199	199
Total comprehensive income for the period		-	(3,488,470)	199	(3,488,271)

**Transactions with owners, in their capacity as owners
and other transfers**

Issue of share capital net of costs	5	2,334,739	-	-	2,334,739
Share based payments	7	-	-	1,332,187	1,332,187
Extinguishment of options	5	-	-	(8,140)	(8,140)
BALANCE AT 31 DECEMBER 2017		10,828,040	(8,245,430)	3,225,194	5,807,804

		Issued Capital	Accumulated Losses	Reserves	Total
Note		\$	\$	\$	\$
Balance at 1 July 2018		14,456,463	(10,810,502)	4,284,736	7,930,697
Loss attributable to members		-	(2,026,978)	-	(2,026,978)
Other comprehensive income for the period		-	-	471	471
Total comprehensive income for the period		-	(2,026,978)	471	(2,026,507)

**Transactions with owners, in their capacity as owners
and other transfers**

Issue of share capital net of costs	5	966,158	-	(1,000,000)	(33,842)
Share based payments	7	-	-	561,793	561,793
Extinguishment of options	7	-	1,042,192	(1,042,192)	-
BALANCE AT 31 DECEMBER 2018		15,422,621	(11,795,288)	2,804,808	6,432,141

The condensed statement of changes in equity should be read in conjunction with the accompanying notes.

Race Oncology Limited
Financial Report for the half-year ended 31 December 2018

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	31 December 2018	31 December 2017
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	11,466	9,783
Payments for research and development	(503,047)	(678,024)
Payments for business development and marketing	(463,775)	(348,332)
Payments for manufacturing and distribution	(195,296)	(545,178)
Payments to suppliers and employees	(434,480)	(825,469)
Net cash used in operating activities	(1,585,132)	(2,387,220)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash provided by investing activities	-	-
CASH FLOWS FROM FINANCING ACITIVITIES		
Proceeds from shares issued	-	2,500,000
Capital raising costs	(33,842)	(154,327)
Net cash (used in)/provided by financing activities	(33,842)	2,345,673
Net (decrease) in cash held	(1,618,974)	(41,547)
Foreign currency translation	(12,320)	(20,761)
Cash at beginning of the period	3,709,998	1,696,834
Cash at end of the period	2,078,704	1,634,526

The condensed statement of cash flows should be read in conjunction with the accompanying notes.

Race Oncology Limited

Financial Report for the half-year ended 31 December 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The half-year financial statements are general purpose financial statements prepared in accordance with the requirements of the *Corporations Act 2001*, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The interim financial report was issued on 27 February 2019 by the directors of the Company.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Company as in the full financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by Race Oncology during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

b) Basis of preparation

The condensed financial statements have been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted. The financial statements have been prepared on a going concern basis.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2018 annual financial report for the financial year ended 30 June 2018, except for the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standard and with International Financial Reporting Standards.

Going Concern

The half year financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Company incurred a loss for the half year ended 31 December 2018 of \$2,026,978 (2017 loss: \$3,488,470) and net cash outflows from operating activities of \$1,585,132 (2017: \$2,387,220 outflows).

The ability of the Company to continue as a going concern is principally dependent upon the ability of the Company successfully raising additional capital and managing cashflows in line with available funds.

The Directors have prepared a cash flow forecast which indicates that the Company will have sufficient cash flows to meet all commitments and working capital requirements for the 12 months period from the date of signing this financial report.

Based on the cash flow forecast and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate. In particular, given the Company's history of raising capital to date, the directors are confident of the Company's ability to raise additional funds as and when they are required.

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Race Oncology Limited
Financial Report for the half-year ended 31 December 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Patents

The Company made upfront payments to purchase patents. The patents have been granted for a period of 20 years by the relevant government agency.

As a result, those patents are amortised on a straight-line basis over the period of the patent.

Amendments to AASBs and the new Interpretation

The Company has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that is relevant to the Company include:

AASB No.	Title
AASB 9	Financial Instruments
AASB 2010-7	Amendments arising from Accounting Standards arising from AASB 9 (December 2010)
AASB 2014-1	Amendments to Australian Accounting Standards Part E - Financial Instruments
AASB 2014-7	Amendments to Australian Accounting Standard Arising From AASB 9 (December 2014)
AASB 2015-10	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128.

Race Oncology Limited
Financial Report for the half-year ended 31 December 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB No.	Title
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 2]
AASB 2017-3	Amendments to Australian Accounting Standards – Clarifications to AASB 4
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration
IFRIC 23	Uncertainty over Income Tax Treatments

The adoptions of the above standards have not had a material impact on this half-year financial report.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Share-based payments

The value attributed to share options and remuneration shares issued is an estimate calculated using an appropriate mathematical formula based on Black-Scholes option pricing model. The choice of models and the resultant option value require assumptions to be made in relation to the likelihood and timing of the conversion of the options to shares and the value and volatility of the price of the underlying shares. Details of share-based payments assumptions are detailed in Note 7.

Amortisation of patents

Costs incurred in acquiring patents and licenses are capitalised and amortised on a straight line basis over the life of the patent. Costs include only those costs directly attributable to the acquisition of the patents and licences. The recoverability of the carrying amount of the capitalised patent costs is dependent on the ability of the Company to generate positive cash inflows from the future development and sale of its pharmaceutical products.

c) Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For the current reporting period, the Company is operated in two segments, being research into oncology drug, Bisantrane and the manufacturing and distribution of the drug for the clinical trials. Accordingly, the financial information reported elsewhere in this financial report is representative of the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.

d) Equity-settled compensation

The Company operates a supplier share and option plan. Share-based payments to suppliers are measured at the fair value of the instruments issued and amortised over the vesting periods. The fair value of performance right options is determined using the satisfaction of certain performance criteria (Performance Milestones). The number of shares option and performance rights expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. The fair value is determined using either a black-scholes or monte-carlo simulation model depending on the type of share-based payment.

NOTE 2. TRADE AND OTHER RECEIVABLES

	31 December 18	30 June 18
Other receivables	5,657	431
R&D tax incentive refund	228,501	-
Total trade and other receivables	234,158	431

Race Oncology Limited
Financial Report for the half-year ended 31 December 2018

NOTE 3. INTANGIBLE ASSETS	31 December 18	30 June 18
At cost	5,000,000	5,000,000
Accumulated amortisation	(641,464)	(500,866)
Total intangible assets	4,358,536	4,499,134

Movement during the half-year

Intellectual Property

Balance at 1 July 2018	4,499,134
Amortisation expense	(140,598)
Balance at 31 December 2018	4,358,536

Intellectual property totalling \$5,000,000 comprises patents and licenses initially acquired through Update Pharma pertaining to the oncology drug, called Bisantrene. The intellectual property is supported by 2 patents and will be expire in year 2034. The patent useful life has been aligned to the patent term and as a result, those patents are amortised on a straight-line basis over the period of the patent.

NOTE 4. TRADE AND OTHER PAYABLES	31 December 18	30 June 18
Trade and other payables	194,277	205,076
Accruals	68,275	82,132
Total trade and other payables	262,552	287,208

NOTE 5. ISSUED AND UNISSUED CAPITAL	31 December 18	30 June 18
Opening balance	14,456,463	8,493,301
Shares issued during the half year	-	5,659,060
Share issue conversion of performance shares	1,000,000	-
Called up capital on partly paid shares received	-	480,000
Issued capital - Pursuant to 3rd party service agreement	-	204,909
Less: transaction costs arising from issued of shares	(33,842)	(380,807)
	15,422,621	14,456,463

The Company has issued share capital amounting to 82,235,813 ordinary shares (30 June 2018: 75,735,813 ordinary shares) of no par value and the Company does not have a limited amount of authorised capital.

a. Ordinary shares – Fully Paid

	No. of shares	
	31 December 18	30 June 18
At beginning of year	75,735,813	52,837,501
Shares issued during the year	6,500,000	22,898,312
At end of the period/year	82,235,813	75,735,813

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Race Oncology Limited
Financial Report for the half-year ended 31 December 2018

NOTE 5. ISSUED AND UNISSUED CAPITAL (continued)

b. Reserve Shares	Date	Quantity	Unit Price \$	Total \$
Reserve shares (loan shares)	1 July 2016	4,000,000	\$0.20	800,000
Balance at 31 December 2018		4,000,000		800,000

NOTE 6. RESERVE		31 December 18	30 June 18
Opening balance		5,084,736	2,700,948
Foreign currency translation (net of tax)		471	645
Share based payment – reassessment of performance shares		-	500,000
Conversion of performance shares	6a	(1,000,000)	-
Share based payment expense	7	561,793	1,930,177
Options lapsed		(1,042,192)	(47,034)
Closing balance		3,604,808	5,084,736

a. Performance Shares Issued

On 1 July 2016, as part of the consideration for the acquisition of intellectual property of Update Pharma, the Company agreed to issue 10,000,000 performance shares to the vendor upon satisfaction of the following milestones:

- (i) 5,000,000 performance shares to convert upon the Company satisfying the following milestones within a period of 24 months from the date of issue of the performance share
 - (a) The Company having received approval under section 505(b)(2) of the Federal Food, Drug, and Cosmetic Act 1938 which allows the use of information from historical clinical trials not conducted by the Company or Update Pharma; and
 - (b) The Company having received approval for, and commenced a bridging study on a medical product to extrapolate foreign clinical trial data on safety, efficacy and dose response within a new region; and
- (ii) 5,000,000 Performance shares to convert if, within a period of 24 months from the date of issue of the Performance shares, the Company has received approval to distribute unauthorised medications to physicians and named patients with unmet medical needs under an early access program.

Any performance shares not converted into a share within 3 years from the issue date would be automatically redeemed by the Company for a sum of \$0.0000001 per performance share within 10 business days.

The Directors assessed at balance date the likelihood of these milestones being met within the vesting period. An undiscounted grant date fair value of \$0.20 per performance share has been attributable to the instruments being the Initial Public Offer price of the Company's shares.

On 20 June 2018 the Performance shares were varied as approved by shareholders in a general meeting to give commercial effect to what was agreed when the terms were initially agreed to. The revised milestones in respect of the Performance Shares were as follows:

- (i) 5,000,000 Performance Shares shall convert upon the Company, within a period of 24 months from the date of issue of the Performance Shares, having received advice from the FDA that the Company may use information from historical clinical trials conducted by third parties in connection with the development and approval of Bisantrene under section 505(b)(2) of the FFDC Act; and
- (ii) 5,000,000 Performance Shares shall convert if, with a period of 24 months from the date of issue of the Performance Shares, the company has received approval to distribute unauthorised medication to physicians and named patients with unmet medical needs under an early access program.

Race Oncology Limited

Financial Report for the half-year ended 31 December 2018

a. Performance Shares Issued (continued)

The Company's Board has received legal advice that the tranche (i) and (ii) milestones were satisfied before 30 June 2018.

The satisfaction of the milestones met within the vesting period resulted in the full value of \$2,000,000 attributed to the performance shares which has been capitalised as an intangible asset, with the additional \$500,000 capitalised during the year ended 30 June 2018, increasing the existing \$1,500,000 value capitalised from the performance shares.

On 21 December 2018 the Company issued 5,000,000 fully paid ordinary shares following the conversion of Milestone (i) Performance Shares on a one for one basis.

NOTE 7. SHARE-BASED PAYMENTS

The following share based payment arrangement existed at 31 December 2018:

On 1 July 2016, the following securities were issued:

- a) 15,000,000 ordinary shares and 10,000,000 performance shares were issued to Update Pharma in consideration for the acquisition of intellectual property from Update Pharma. Additional detail on Performance Shares noted below.
- b) 4,000,000 shares and 6,000,000 Options (exercisable at \$0.25 and expiring 5 years from the date of issue, being 1 July 2021) to Mr Peter Molloy (or his nominee), Managing Director and Chief Executive Officer;
- c) 3,000,000 Options (exercisable at \$0.25 and expiring 5 years from the date of issue, being 1 July 2021) to John Rothman (or his nominee), Chief Scientific Officer; and

On 22 November 2016, the Company issued 200,000 unlisted options to DEL Biopharma LLC exercisable at \$0.256 each on or before 1 August 2021 and vesting on 1 August 2017. The number of unlisted options vesting at the vesting date was calculated based on the performance against key performance indicators pursuant to the terms and conditions of a consulting agreement and as a result, 135,000 of the options vested on 1 August 2017. The balance of the 65,000 options have lapsed.

On 28 March 2017, 1,500,000 unlisted options exercisable at \$0.25 each on or before 1 April 2022, with 750,000 vesting on 1 April 2018 and 750,000 vesting on 1 April 2019 were issued pursuant to Gordon Beck variation consultancy agreement dated 21 March 2017.

On 8 May 2017, 100,000 unlisted options exercisable at \$0.25 each on or before 8 May 2022 were issued pursuant to terms of Incentive Option Plan to Peter Webse.

On 1 September 2017, the Company issued 6,250,000 unlisted options exercisable at \$0.30 and expiring before the 30 September 2018. The options were issued on a 1 for 2 basis to participate in Tranche 1 and Tranche 2 placements. A portion of these options were exercised as follows:

- a) 56,250 options were exercised on 9 February 2018.
- b) 137,500 options were exercised on 27 February 2018.
- c) 50,000 options were exercised on 13 April 2018.

On 30 August 2017, the Company issued 4,000,000 unlisted options exercisable at \$0.30 and expiring before the 30 September 2018 pursuant to the advisory mandate. On 11 January 2018, an Advisor exercised 282,500 options converting them into ordinary shares. The remaining 9,723,750 options expired on the 30 September 2018.

On 22 November 2017, the Company issued the following options:

- a) 2,000,000 unlisted options exercisable at \$0.49 and expiring 22 November 2019. 1,000,000 options were issued to each of the two Directors, Mr Chris Ntoumenopoulos and Dr Brendan De Kauwe.
- b) 2,000,000 unlisted options exercisable at \$0.65 and expiring 22 November 2019. 1,000,000 options were issued to each of the two Directors, Mr Chris Ntoumenopoulos and Dr Brendan De Kauwe.

The 1,000,000 options exercisable at \$0.49 and 1,000,000 options exercisable at \$0.65 for Brendan De Kauwe lapsed on 4 April 2018 as the Director resigned, however new options were issued on the same terms and condition on 27 November 2018 following approval at the Company's AGM.

Race Oncology Limited
Financial Report for the half-year ended 31 December 2018

NOTE 7. SHARE-BASED PAYMENTS (continued)

On 2 July 2018, the Company issued 5,000,000 unlisted options exercisable at \$0.45 and expiring before the 19 March 2020 as approved at the General Meeting held on 20 June 2018 for Advisor services provided in FY 2018.

On 13 July 2018 the Company issued the following options:

- a) 6,000,000 unlisted \$0.30 options exercised on or before 13 January 2020 issued for the provision of corporate advisory services.
- b) 1,500,000 unlisted \$0.32 options exercised on or before 16 May 2023, issued pursuant to employee share option plan.

On 1 October 2018 the Company issued 420,000 unlisted options exercisable \$0.12 and expiring 1 October 2023 for the provision of consultancy services.

On 27 November 2018 the Company issued 2,000,000 unlisted options to Race Director John Cullity. The options are exercisable at \$0.23, expire on the 21 November 2021 and vesting quarterly over a period of 24 months.

No options were exercised during the half year.

Fair value of options

The fair value of share options granted have been valued using a Black Scholes Methodology, taking into account the terms and conditions upon which the unlisted share options were granted.

A summary of the inputs used in the valuation of the options is as follows:

Unlisted Share Options	Advisor Options	Advisor Options	Brendan De Kauwe	Brendan De Kauwe	Director Options
Exercise price	\$0.30	\$0.12	\$0.49	\$0.65	\$0.23
Share price at date of issue	\$0.175	\$0.095	\$0.13	\$0.13	\$0.13
Grant date	13 Jul 2018	1 Oct 2018	27 Nov 2018	27 Nov 2018	27 Nov 2018
Expected volatility	100%	100%	100%	100%	100%
Expiry date	13 Jan 2020	1 Oct 2023	22 Nov 2019	22 Nov 2019	27 Nov 2021
Risk free interest rate	1.99%	2.23%	2.00%	2.00%	2.07%
Value per option	\$0.0573	\$0.0684	\$0.0105	\$0.0064	\$0.0669
Number of options	6,000,000	420,000	1,000,000	1,000,000	2,000,000
Total value of options	\$343,704	\$28,728	\$10,457	\$6,388	\$133,765

During the half year end 31 December 2018, a share based payment expense of \$561,793 was recognised.

NOTE 8. CONTINGENT LIABILITIES

There are no contingent liabilities.

NOTE 9. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of trade and other receivables, deposits paid, trade and other payables, and financial liabilities. These financial instruments are measured at amortised cost, less any provision for non-recovery. The carrying amounts of the financial assets and liabilities approximate their fair value.

NOTE 10. SUBSEQUENT EVENTS

On 22 January 2019, the Company announced that it had executed a consulting agreement with Professor Borje Andersson, who as mentioned in the review of operations was a speaker and session chair of the International Academy for Clinical Haematology (IACH) in Paris. Professor Borje Andersson will be working with the Race team on a range of value-adding programs for Bisantrene. The Company issued 420,000 options to Professor Borje Andersson in the form of compensation, exercisable at \$0.12 and expiring on 21 January 2024.

On 31 January 2019, the Company announced it had received a \$228,501 R&D Tax Incentive refund for the 2017/2018 financial year. The R&D Tax Incentive is an important Australian Government Program that refunds up to 43.5% of eligible expenditure on research and development.

NOTE 11. RELATED PARTY TRANSACTIONS

The related party transactions of the half-year financial report are consistent with those adopted and disclosed in the Company's 2018 annual financial report for the financial year ended 30 June 2018 except for the share based payments as disclosed in note 7.


DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with the accounting standards and giving true and fair view of the financial position as at 31 December 2018 and its performance for the half-year then ended.

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

On behalf of the Directors


Managing Director
Melbourne, Victoria
Dated: 27 February 2019

Independent Auditor's Review Report

To the Members of Race Oncology Limited

We have reviewed the accompanying financial report of Race Oncology Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled during the period.

Directors Responsibility 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 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of the Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independent Auditor's Review Report

To the Members of Race Oncology Limited (Continued)



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Race Oncology Limited and Controlled Entities is not in accordance with the *Corporations Act 2001* including:

- a. Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and of its performance for the period ended on that date; and
- b. Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material Uncertainty Related to Going Concern

We draw attention to Note 1b in the financial report which indicates that the Consolidated Entity incurred a net loss of \$2,026,978 during the period ended 31 December 2018. As stated in Note 1b, these events or conditions, along with other matters as set forth in Note 1b, indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

BENTLEYS
Chartered Accountants

DOUG BELL CA
Partner

Dated at Perth this 27th day of February 2019