RECCE PHARMACEUTICALS LTD
ABN 73 124 849 065

Appendix 4E

Preliminary Final Report for the financial year ended 30 June 2019

Current Reporting Period: **30 June 2019**

Previous Reporting Period: **30 June 2018**

Results for Announcement to the Market

	12 months to 30 June 2019 $	12 months to 30 June 2018 $	% Change
Revenue from ordinary activities	-	-	0%
Loss from ordinary activities after tax attributable to members	(2,789,197)	(1,674,288)	67%
Net loss for the period attributable to members	(2,789,197)	(1,674,288)	67%

Brief Explanation of Results

Operational Report

During the reporting period, Recce Pharmaceuticals Ltd (the "Company") and controlled entities (the "Group") have made significant progress. Some of the highlights for the period were as follows:

- On 17 July 2018, the Company announced submission of its recent data package to the US Food & Drug Administration (FDA), and close interaction with the FDA facilitated by the Qualified Infectious Disease Product designation, has enabled Recce in conjunction with its FDA advisory partners, to develop a simple protocol, subject to FDA approval, for a first-in-human Phase la clinical trial.
- On 31 July 2018, the Company announced that Australian patent WO2016/077879 'Copolymer and Method for Treatment of Bacterial Infection', has been accepted for grant by the Australian Patent Office. The patent is the first of Recce's patent family 2 (Multi Drug Applications) and offers significant additional market monopolies to November 2034.
- On 13 September 2018, the Company announced it had entered into an agreement with Radium Capital to receive advance payments of its R&D tax incentive funds. Various advance payments totalling $1,131,107 were received during the period.
- On 2 October 2018, the Company announced the cash receipt of a A$679,624 Research and Development Tax Incentive rebate from the Australian Tax Office for the year ending 30 June 2018.
- On 25 October 2018, the Company announced it was to be represented at the World Anti-Microbial Resistance Congress in Washington D.C., 25 - 26 October 2018.
- On 18 December 2018, the Company announced that Dr Graham Melrose had provided the Company with a short term, unsecured loan of A$200,000 to support the Company's cash flow.

Brief explanation of Results (Continued)

Operational Report (Continued)

- On 18 January 2019, the Company announced that Dr Graham Melrose had provided the Company with a further short term, unsecured loan of A$50,000. Further to the loan offered by Dr Melrose, Mr James Graham also provided the Company with a short term, unsecured loan of A$100,000 to support the Company's cash flow.
- On 8 February 2019, the Company announced that it had raised approximately A$1.8m (before costs) from sophisticated and institutional investors that resulted in 12,857,143 fully paid ordinary shares being issued at A$0.14 per share.
- On 7 March 2019, the Company announced that Mr James Graham, had purchased 650,000 fully paid ordinary shares in the Company on the market for a total consideration of approximately $100,460 (an average price of A$0.1546 per share).
- On 14 March 2019, the Company announced the US Patents and Trademarks Office had Granted 23 claims for patent US 10,226,482 B2, 'Copolymer and Method for Treatment of Bacterial Infection'.
- On 3 June 2019, the Company announced the formation of a Clinical Advisory Committee to assist in the Board's growing clinical considerations under the Therapeutic Goods Administration (TGA) Special Access Scheme (SAS). The new Clinical Advisory Committee will be chaired by Dr David Bowers, Spinal Injury Physician at Royal North Shore and other University Hospitals in Sydney.
- Considerable and successful in-house R&D activities to achieve the following manufacturing milestones as the company progresses to human therapeutic use of RECCE® 327:
  - Scale-up quantities of patented synthesis of RECCE® 327
  - Reproducibility of RECCE® 327 across multiple batches
  - Consistency in meeting high standards of internal and external Quality Assurance
  - Packaging and labelling for intravenous use meeting international standards and non-tampering protocols
  - Dosing, monitoring of patient welfare during and following intravenous use, especially by infusion

Financial Report

The operating loss has increased to $2,789,197 (2018: loss of $1,674,288) as a result of the increased focus on its R&D activities. The annual loss was after a reduced R&D tax incentive of $679,624 (2018: $1,288,518).

The loss per share has increased during the year to 2.95 cents (2018: 1.98 cents).

The Group's focus is on progressing RECCE® 327 into human clinical trials.

Financial Report (Continued)

Significant information relating to the Company's financial performance and financial position
For the year ended 30 June 2019, the Group recorded a loss of $2,789,197 and had net cash outflows used in operating activities of $2,612,131. At 30 June 2019 the Group had a working capital deficiency of $820,239 and net liabilities of $405,604. The ability of the Group to continue as a going concern and being able to continue to fund its operating activities is dependent on securing additional funding through share placements to new or existing investors, continued support by way of shareholder loans, and receiving a substantially increased R&D tax rebate.

These conditions indicate a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have budgeted on a conservative basis and believe there are sufficient funds to meet the Group's working capital requirements as at the date of this report. Based on the success of current progress in the Group, it is considered that re-financing through equity funds would be well supported. Subsequent to year end the Group expects to receive further funds via both equity, R&D tax rebates and loans.

The financial statements have been prepared on the basis that the Group is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business. This is due to the Group continuing to receive its Australian R&D tax rebates for R&D expenditure in Australia and overseas incurred by the Group as awarded by Ausindustry, a division of the Australian Government's Department of Industry. Innovation and Science and advance payments of its R&D tax incentive via the Group's agreement with Radium Capital and the ability of the company to raise funds through equity.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern.

Refer to attached preliminary final report.

Appendix 4E

Preliminary Final Report for the financial year ended 30 June 2019

Dividends

	Amount per Security	Percentage Franked
Final Dividend	Nil	N/A
Interim Dividend	Nil	N/A
Date the Dividend is Payable:	N/A	N/A
Record Date for determining entitlements to the Dividends:	N/A	N/A

The Company did not declare a dividend during the financial year and has not declared a dividend since the end of the financial year.

Net Tangible Assets per Security

As at 30 June 2019 (cents)	(0.38)
As at 30 June 2018 (cents)	0.78

Audit of the Financial Report

The financial report is in the process of being audited, the independent audit report is likely to contain a paragraph referring to material uncertainty related to Going Concern.

RECCE PHARMACEUTICALS LTD

ABN 73 124 849 065

PRELIMINARY FINAL REPORT (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

RECCE PHARMACEUTICALS LTD
ABN 73 124 849 065

TABLE OF CONTENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $	2018 $
Other income	**5**	686,622	1,300,533
Expenses			
Laboratory expenses		(416,353)	(372,171)
Employee benefits expenses	**6**	(1,383,692)	(1,085,550)
Share based payments expense	**20**	-	(71,250)
Depreciation and amortisation expenses		(56,088)	(53,119)
Travel expenses		(185,363)	(185,051)
Patent related costs		(59,805)	(65,145)
Rental expenses		(212,510)	(179,979)
Finance costs	**6**	(56,694)	(54,306)
Other expenses	**6**	(1,105,314)	(908,250)
		(3,475,819)	(2,974,821)
Loss before income tax		**(2,789,197)**	**(1,674,288)**
Income tax expense	**8**	-	-
Loss for the year		**(2,789,197)**	**(1,674,288)**
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		**(2,789,197)**	**(1,674,288)**
		Cents	**Cents**
Loss per share attributable to the owners of Recce Pharmaceuticals :			
Basic loss per share for the year	**9**	(2.95)	(1.98)
Diluted loss per share for the year	**9**	(2.95)	(1.98)
Dividends per share for the year		**-**	**-**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2019

	Note	30 June 2019 $	30 June 2018 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	**10**	403,384	679,719
Trade and other receivables	**11**	36,517	20,957
Other current assets		13,200	7,821
TOTAL CURRENT ASSETS		**453,101**	**708,497**
NON-CURRENT ASSETS			
Plant and equipment	**12**	469,083	435,240
TOTAL NON-CURRENT ASSETS		**469,083**	**435,240**
TOTAL ASSETS		**922,184**	**1,143,737**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	**13**	320,522	229,404
Financial liabilities	**14**	737,408	2,859
Provisions for employee benefits	**15**	215,410	184,128
TOTAL CURRENT LIABILITIES		**1,273,340**	**416,391**
NON-CURRENT LIABILITIES			
Provisions for employee benefits	**15**	54,448	32,431
TOTAL NON-CURRENT LIABILITIES		**54,448**	**32,431**
TOTAL LIABILITIES		**1,327,788**	**448,822**
NET ASSETS / (LIABILITIES)		**(405,604)**	**694,915**
EQUITY			
Share capital	**16**	11,573,369	10,031,509
Reserves	**17**	1,662,549	1,515,731
Accumulated losses		(13,641,522)	(10,852,325)
TOTAL EQUITY / (DEFICIENCY OF NET ASSETS)		**(405,604)**	**694,915**

The accompanying notes form part of these consolidated financial statements.

RECCE PHARMACEUTICALS LTD
ABN 73 124 849 065

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

	Share Capital $	Reserves $	Accumulated Losses $	Total $
BALANCE AT 1 JULY 2017	8,235,009	1,533,172	(9,178,037)	590,144
COMPREHENSIVE INCOME:				
Loss for the year	-	-	(1,674,288)	(1,674,288)
Other comprehensive income	-	-	-	-
	-	-	(1,674,288)	(1,674,288)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:				
Conversion of performance shares	-	-	-	-
Issuance of shares	1,796,500	-	-	1,796,500
Option issued related to convertible notes	-	(88,691)	-	(88,691)
Share based payments	-	71,250	-	71,250
	1,796,500	(17,441)	-	1,779,059
BALANCE AT 30 JUNE 2018	**10,031,509**	**1,515,731**	**(10,852,325)**	**694,915**
BALANCE AT 1 JULY 2018	10,031,509	1,515,731	(10,852,325)	694,915
COMPREHENSIVE INCOME:				
Loss for the year	-	-	(2,789,197)	(2,789,197)
Other comprehensive income	-	-	-	-
	-	-	(2,789,197)	(2,789,197)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:				
Conversion of performance shares	-	-	-	-
Issuance of shares	1,688,678	-	-	1,688,678
Options cost expense on placement	(146,818)	146,818	-	-
Conversion of convertible notes	-	-	-	-
Share based payments	-	-	-	-
	1,541,860	146,818	-	1,688,678
BALANCE AT 30 JUNE 2019	**11,573,369**	**1,662,549**	**(13,641,522)**	**(405,604)**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Australian Taxation Office		679,624	1,288,518
Payments to suppliers and employees		(3,242,059)	(3,028,564)
Interest received		6,998	12,015
Interest and other costs of finance paid		(56,694)	(4,286)
NET CASH USED IN OPERATING ACTIVITIES	**18(a)**	**(2,612,131)**	**(1,732,317)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(89,931)	(177,761)
NET CASH USED IN INVESTING ACTIVITIES		**(89,931)**	**(177,761)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		737,408	34,310
Repayments of borrowings		(2,859)	(31,451)
Advances from a shareholder		2,500	50,000
Proceeds from issue of shares (net of costs)		1,688,678	1,446,500
NET CASH PROVIDED BY FINANCING ACTIVITIES		**2,425,727**	**1,499,359**
Net decrease in cash and cash equivalents held		(276,335)	(410,719)
Cash and cash equivalent at the beginning of the year		679,719	1,090,438
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**10**	**403,384**	**679,719**
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Financing activities	**18(b)**	-	300,000
		-	**300,000**

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: CORPORATE INFORMATION

The consolidated financial statements of Recce Pharmaceuticals Ltd (formerly Recce Ltd) ("the Company") and together with its controlled entities ("the Group") for the year ended 30 June 2019.

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

(a) 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 financial statements have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

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.

(b) 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.

(c) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign Currency Translation (Continued)

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.

(d) Revenue Recognition

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

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 are recognised when received or when the right to receive payment is established.

(e) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Income Tax (Continued)

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.

(f) Impairment of 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.

(g) 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.

(h) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Fair Values (Continued)

In measuring fair value, the group uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

(i) 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.

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

(j) 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.
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

- 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 asset's 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 asset's carrying amount and are included in profit or loss in the year that the item is derecognised.

Research Expenditure

Research costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) 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.

(m) 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.

(n) 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.

(o) 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.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Employee Benefit Provisions (Continued)

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.

(p) 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.

(q) Share-Based Payments

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or options over shares ("equity-settled transactions").

(r) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) 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

(t) Leases

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the year of the lease.

(u) Convertible Notes and Embedded Derivatives

A convertible note was issued by the Group as part of a share purchase agreement, which includes embedded derivatives (option to convert the security to variable number of shares in the Group). This convertible note is initially recognised as financial liabilities at fair value. On initial recognition, the fair value of the convertible note and value of the equity components (options issued at commencement of facility) will equate to the proceeds received and subsequently the convertible note is measured at amortised cost in each reporting year. The movements are recognised on the profit or loss as finance costs.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Amendments to Accounting Standards and the New Interpretation that are Mandatorily Effective for the Current Year

A number of new or amended standards became applicable for the current reporting year and Recce Pharmaceuticals Ltd had to change its accounting policies as a result of adopting the following standards:

- AASB 9 Financial Instruments, and
- AASB 15 Revenue from Contracts with Customers.

The new accounting policies are disclosed below. There is no impact on the Company for the year ended 30 June 2019.

Changes in accounting policy

The Group has adopted all of 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 year.

This note explains the impact of the adoption of AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers on Recce Pharmaceutical Ltd. financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior years.

Except as noted below, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting year.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces the provisions of AASB 139 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 Financial Instruments from 1 July 2018 did not give rise to any material transitional adjustments. The new accounting policies (applicable from 1 July 2018) are set out below.

In accordance with the transitional provisions in AASB 9(7.2.15) and (7.2.26), comparative figures have not been restated.

Classification and measurement

Except for certain trade receivables the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under AASB 9 financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Amendments to Accounting Standards and the New Interpretation that are Mandatorily Effective for the Current Year (Continued)

Impairment

From 1 July 2018 the group assesses on a forward looking basis the expected credit losses (ECLs) associated with its debt instruments carried at amortised cost and FVOCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. For trade and other receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience.

AASB 15 Revenue from contracts with Customers

AASB 15 Revenue from contracts with Customers replaces AASB 118 Revenue. AASB 15 was adopted by the Group on 1 July 2018. AASB 15 provides a single, principles-based five-step model to be applied to all contracts with customers.

The Group has considered AASB 15 and deemed that it had no impact on the Company.

The Group's new revenue accounting policy is detailed below:
Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable component, the Group estimates the expected consideration for the estimated impact of the variable component at the point of recognition and re-estimated at every reporting year.

The adoption of these new accounting policies did not have any effect on the financial position or performance of the Company.

(w) 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 these new and amended pronouncements.

At the date of authorisation of the consolidated financial statements, the Standards and Interpretations that were issued but not yet effective that are applicable to the Group is summarised below. Their adoption may affect the accounting for future transactions or arrangements.

AASB 16: Leases (effective date to the Group on financial year 2020).

AASB 16 will replace AASB 117: Leases and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(w) Accounting Standards Issued But Not Yet Effective (Continued)

- right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:

  (a) investment property, the lessee applies the fair value model in AASB 140: Investment Property to the right-of-use asset; or
  (b) property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and

- lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, under AASB 16 a lessor would continue to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and would account for each type of lease in a manner consistent with the current approach under AASB 117.

The Group is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

(x) 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.

(y) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) **Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)**

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.

NOTE 3: GOING CONCERN

For the year ended 30 June 2019, the Group recorded a loss of $2,789,197 and had net cash outflows used in operating activities of $2,612,131. At 30 June 2019 the Group had a working capital deficiency of $820,239 and net liabilities of $405,604. The ability of the Group to continue as a going concern and being able to continue to fund its operating activities is dependent on securing additional funding through share placements to new or existing investors, continued support by way of shareholder loans, and receiving a substantially increased R&D tax rebate.

These conditions indicate a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have budgeted on a conservative basis and believe there are sufficient funds to meet the Group's working capital requirements as at the date of this report. Based on the success of current progress in the Group, it is considered that re-financing through equity funds would be well supported. Subsequent to year end the Group expects to receive further funds via both equity, R&D tax rebates and loans.

The financial statements have been prepared on the basis that the Group is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business. This is due to the Group continuing to receive its Australian R&D tax rebates for R&D expenditure in Australia and overseas incurred by the Group as awarded by Ausindustry, a division of the Australian Government's Department of Industry. Innovation and Science and advance payments of its R&D tax incentive via the Group's agreement with Radium Capital and the ability of the company to raise funds through equity.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 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 two geographic segment being Australia 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	
	2019	2018	2019	2018
	$	$	$	$
Australia	570,537	876,275	(893,240)	(145,230)
USA	116,085	412,243	(181,746)	(68,323)
Central Administration	-	12,015	(1,714,211)	(1,460,735)
	686,622	**1,300,533**	**(2,789,197)**	**(1,674,288)**

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	
	2019	2018	2019	2018
	$	$	$	$
Australia	440,223	384,503	-	-
USA	-	-	-	-
Central Administration	481,961	759,234	1,327,788	448,822
	922,184	**1,143,737**	**1,327,788**	**448,822**

(d) Segment net assets / (liabilities)

	2019	2018
	$	$
Australia	440,223	384,503
USA	-	-
Central Administration	(845,827)	310,412
	(405,604)	**694,915**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
NOTE 5: REVENUE AND OTHER INCOME	**$**	**$**
Other Income:		
- Research and Development ("R&D") tax incentive	679,624	1,288,518
- Interest income	6,998	12,015
Total other income	**686,622**	**1,300,533**

NOTE 6: EXPENSES

	2019	2018
Employee Benefits Expenses		
- Salaries and wages	1,231,798	1,042,077
- Superannuation expenses	107,263	94,330
- Long service leave expenses	22,018	9,573
- Payroll taxes	22,543	(64,488)
- Other employee related costs	70	4,058
Total finance costs	**1,383,692**	**1,085,550**
Finance Costs:		
- Fairvalue movement of convertible notes	-	50,020
- Interest from short-term borrowings	55,634	2,520
- Bank fees and charges	1,060	1,766
Total finance costs	**56,694**	**54,306**
Other Expenses:		
- Audit fees	62,182	40,348
- Communication expenses	8,395	8,758
- Computer maintenance and consumables	7,508	15,540
- Consulting fees	396,395	421,547
- Insurance expenses	48,481	34,776
- Legal expenses	128,200	141,401
- Listing and regulatory fees	54,665	71,285
- Printing and stationery expenses	14,571	9,938
- Roadshows and conferences	117,599	-
- Sundry expenses	267,318	164,657
Total other expenses	**1,105,314**	**908,250**

NOTE 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):

	2019	2018
Audit services		
-BDO for audit and review of the consolidated financial statements	62,182	40,348
Non-Audit-related services		
-BDO for investigating Accountant's Report for Prospectus	-	-
	62,182	40,348

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 8: INCOME TAX EXPENSE

Loss before income tax	(2,789,197)	(1,674,288)
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% (2018: 27.5%)	(767,029)	(460,429)
Add:		
- Non-allowable items:		
- Share-based payments expense	-	19,594
- Expenses subject to R&D tax incentive	677,529	495,027
- Other non-allowable items	49,586	26,202
Less:		
- Non assessable income	(187,080)	(354,342)
- Tax losses and deferred tax not recognised	226,994	273,948
Income tax attributable to the Group	**-**	**-**
Deferred tax attributable to the Group		
Tax losses carried forward	1,041,836	1,794,001
Accruals and provisions	87,658	60,507
Blackhole expenses	66,100	41,931
Patents	-	10,710
	1,195,594	**1,907,149**

The above deferred tax assets 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	$	$
NOTE 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	(2,789,197)	(1,674,288)
	No	**No**
Weighted average number of shares		
Weighted average number of ordinary shares used in calculating basic losses per share	94,473,428	84,724,249
	94,473,428	84,724,249
	$	**$**
Loss per share (cents per share):		
Basic loss for the year attributable to the members of the Company	(2.95)	(1.98)
Diluted loss for the year attributable to the members of the Company	(2.95)	(1.98)

NOTE 10: CASH AND CASH EQUIVALENTS

	2019	2018
Cash at bank	403,286	679,677
Cash on hand	98	42
	403,384	**679,719**

Cash at bank and in hand bear floating interest rates between 1.50% and 2.65% depending on the amount on deposit. Refer to Note 19 for additional risk exposure analysis.

NOTE 11: TRADE AND OTHER RECEIVABLES

	2019	2018
CURRENT		
Net GST receivable	36,517	20,957
	36,517	**20,957**

Refer to Note 19 for additional risk exposure analysis.

NOTE 12: PLANT AND EQUIPMENT

	2019	2018
Laboratory machinery and equipment		
- at cost	504,074	420,258
- accumulated depreciation	(115,632)	(69,594)
	388,442	**350,664**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 12: PLANT AND EQUIPMENT (CONTINUED)

	2019 $	2018 $
Office furniture and equipment		
- at cost	27,753	27,609
- accumulated depreciation	(8,220)	(6,309)
	19,533	**21,300**
Computer equipment		
- at cost	28,845	24,000
- accumulated depreciation	(19,673)	(16,155)
	9,172	**7,845**
Office improvements		
- at capitalised cost	56,835	56,835
- accumulated depreciation	(7,119)	(4,242)
	49,716	**52,593**
Library and website costs		
- at cost	7,176	7,176
- accumulated depreciation/amortisation	(4,956)	(4,338)
	2,220	**2,838**
Total plant and equipment	**469,083**	**435,240**

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 $
2019						
Beginning of the year	350,664	21,300	7,845	52,593	2,838	435,240
Additions	83,816	144	4,845	-	-	88,805
Depreciation	(46,038)	(1,911)	(3,518)	(2,877)	(618)	(54,962)
End of the year	**388,442**	**19,533**	**9,172**	**49,716**	**2,220**	**469,083**
2018						
Beginning of the year	220,139	21,035	10,094	55,675	3,655	310,598
Additions	172,882	2,270	2,609	-	-	177,761
Depreciation	(42,357)	(2,005)	(4,858)	(3,082)	(817)	(53,119)
End of the year	**350,664**	**21,300**	**7,845**	**52,593**	**2,838**	**435,240**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $	2018 $
NOTE 13: TRADE AND OTHER PAYABLES			
CURRENT			
Unsecured liabilities			
Trade payables		124,413	125,378
Employee related payables		52,600	54,026
Sundry creditors		143,509	50,000
		320,522	**229,404**

NOTE 14: FINANCIAL LIABILITIES

	Note	2019 $	2018 $
CURRENT			
Loans payable	**14(a)**	150,000	2,859
R&D advance	**14(a)**	587,408	-
		737,408	**2,859**

(a) Loans payable

The prior year balance pertained to funding obtained by the Group which was payable in 12 monthly instalments from August 2017. The loan was obtained to pay for the Directors and Officers insurance. The current year balance comprises a short term unsecured loan by Dr. Graham Melrose at an interest rate of 5% per annum.

The R&D advance represents an amount payable to Radium Capital and will be offset against R&D refunds. Interest is payable at the rate of 13.92% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 15: PROVISIONS FOR EMPLOYEE BENEFITS	2019 $	2018 $
CURRENT		
Unsecured liabilities		
Annual leave	123,977	117,645
Personal leave	91,433	66,483
	215,410	**184,128**
NON-CURRENT		
Long service leave	**54,448**	**32,431**
Movement of long service leave provision:		
At beginning of the year	32,431	22,858
Provisions made during the year	22,017	9,573
At end of the year	**54,448**	**32,431**

NOTE 16: SHARE CAPITAL

Issued and fully paid ordinary shares	**11,573,369**	**10,031,509**

Movements in ordinary shares on issue:

	2019		2018	
	No.	**$**	**No.**	**$**
Opening balance	89,342,418	10,031,509	78,004,500	8,235,009
Shares issued during the year:				
- shares issued through Share Purchase Plan[1]	-	-	5,408,487	946,500
- shares issued to ASOF[2]	-	-	3,607,881	550,000
- shares issued to employees/KMP	430,358	-	-	-
- collateral shares Issued under Collateral Placement Deed [3]	4,500,000	-	-	-
- options cost expense on placement	-	(146,818)	-	-
- new shares issued from placement	12,857,143	1,688,678	-	-
	17,787,501	1,541,860	9,016,368	1,496,500
Conversions during the year:				
- Convertible notes[2]	-		2,321,550	300,000
- Class A performance shares	-	-	-	-
	-	-	2,321,550	300,000
Total[4]	**107,129,919**	**11,573,369**	**89,342,418**	**10,031,509**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 16: SHARE CAPITAL (Continued)

[1]On 23 October 2017, the Company accepted applications from 171 registered shareholders under the Share Purchase Plan.

[2]The issue of shares and conversion of convertible notes pertained to the Share Purchase and Convertible Security Agreement signed by the Company and ASOF on 16 June 2017, whereby the Company could receive over a 24-month year up to $6.05 million from ASOF, a US institutional investor.

[3]On 15 February 2019, the Company issued 12,857,143 ordinary shares at 14 cents per ordinary share less costs. Additionally 4,500,000 Ordinary shares were issued to Acuity Capital as collateral shares pursuant to the Controlled Placement Deed and 1,800,000 options were issued for nil cash consideration to DJ Carmichael.

[4]At 30 June 2019, 107,129,919 ordinary shares on issue were quoted in the ASX whilst 42,810,081 ordinary shares were unquoted.

Options from shares issued

The Company issued the following options to ASOF as part of its Share Purchase and Convertible Security Agreement signed on 16 June 2017. Additionally, options were issued to D J Carmichael Pty Limited as part of the current year share placement.

Particulars	Issue Date	Exercise Date	Exercise Price cents	2019 No	2018 No
Options	16-Jun-17	21-Jun-21	25.93	641,000	641,000
Tranche 1	19-Jul-17	19-Jul-20	21.71	59,880	59,880
Tranche 2	06-Sep-17	25-Aug-20	18.72	104,167	104,167
Tranche 3	29-Sep-17	29-Sep-20	17.80	109,569	109,569
Tranche 4	02-Nov-17	01-Nov-20	20.40	127,470	127,470
Tranche 5	01-Dec-17	30-Nov-20	20.96	124,069	124,069
Tranche 6	17-Jan-18	10-Jan-21	19.88	130,804	130,804
Tranche 7	16-Feb-18	13-Feb-21	19.81	65,617	65,617
Options[1]	15-Feb-19	15-Feb-23	16.80	1,800,000	-
				3,162,576	**1,362,576**

[1]On 15 February 2019, the Company issued 1,800,000 options to D J Carmichael Pty Limited. These options have an exercise price that is a 20% premium to the issue price of the shares offered under the placement (14 cents).

	Note	2019 $	2018 $
NOTE 17: RESERVES			
Performance shares reserve	**17(a)**	1,444,481	1,444,481
Share-based payments reserve	**17(b)**	71,250	71,250
Options reserve	**17(c)**	146,818	-
		1,662,549	**1,515,731**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 17: RESERVES (continued)

(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 to ordinary shares (refer to Note 14)	-	-
At end of year	**1,444,481**	**1,444,481**

(b) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of ordinary shares to be issued to Non-Executive Directors after completion of 12 months service.

Movements of share-based payments reserve:		
At beginning of year	71,250	-
Additions[1]	-	71,250
At end of year	**71,250**	**71,250**

[1]Refer to Note 20.

(C) Options reserve

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

Movements of options reserve		
At beginning of year	-	-
Additions[2]	146,818	-
At end of year	**146,818**	**-**

[2]Refer to Note 16.

NOTE 18: CASH FLOW INFORMATION

(a) Reconciliation of loss after income tax to net cash flow from operating activities:

Loss for the year	(2,789,197)	(1,674,288)
Adjustments and non-cash items:		
- Depreciation and amortisation	56,088	53,119
- Interest amortisation of convertible notes	-	50,020
- Share-based payments expense	-	71,250
Change in operating assets and liabilities		
- Decrease/(Increase) in trade and other receivables	(15,560)	39,228
- (Increase)/Decrease in other current assets	(5,379)	(4,456)
- (Decrease)/Increase in trade and other payables	88,618	(301,071)
- Increase in provisions for employee benefits	53,299	33,881
Net cash outflow from operating activities	**(2,612,131)**	**(1,732,317)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 18: CASH FLOW INFORMATION (Continued)	**2019**	**2018**
(b) Non-cash investing and financing activities:	**$**	**$**
- Financing activities		
Conversion of convertible notes to ordinary shares	-	300,000
	-	**300,000**

NOTE 19: 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 risk 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:

Financial Assets		
At amortised cost		
Cash and cash equivalents	403,384	679,719
Trade and other receivables	36,517	20,957
	439,901	**700,676**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 19: FINANCIAL RISK MANAGEMENT (Continued)	**2019 $**	**2018 $**
Financial Liabilities		
At amortised cost		
Trade payables and sundry creditors	267,922	175,378
Loans payable	150,000	2,859
R&D Advance	587,408	-
	1,005,330	**178,237**
Net exposure	**(565,429)**	**522,439**

(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 to perform numerous laboratory tests as well as use the services of an expert consultant in the USA that will result in approximately US$3.3 million in expenditure.

(i) 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:

	2019		2018	
	Weighted average	Balance $	Weighted average	Balance $
Cash and cash equivalents	1.53%	403,286	2.56%	679,677

(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 held 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 19: FINANCIAL RISK MANAGEMENT (Continued)

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

	Rating	2019 $	2018 $
Cash held with BankWest Bank	AA-	403,286	679,677

The Group's primary banker is BankWest. The Board considers the use of this financial institutions, 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 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 2019					
Trade payables	124,413	-	-	124,413	124,413
Employee related payables	52,600	-	-	52,600	52,600
Sundry creditors	143,509	-	-	143,509	143,509
Loan payable	150,000	-	-	150,000	150,000
R&D Advance	587,408	-	-	587,408	587,408
	1,057,930	-	-	1,057,930	1,057,930

Contractual maturities of financial liabilities	<6 months	>6-12 months	>12 months	Total contractual cash flows	Carrying amount
	$	$	$	$	$
30 June 2018					
Trade payables	125,378	-	-	125,378	125,378
Employee related payables	54,026	-	-	54,026	54,026
Sundry creditors	50,000	-	-	50,000	50,000
Loan payable	2,859	-	-	2,859	2,859
	232,263	-	-	232,263	232,263

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2019

NOTE 19: FINANCIAL RISK MANAGEMENT (Continued)

At 30 June 2019, the Group had sufficient cash to meet the financial liabilities as and when they are due and payable.

(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).

Valuation Techniques to Derive Level 3 Fair Values

Convertible security at fair value through profit or loss

The fair value of the convertible security is determined based on the accretion of its carrying amount recognised at inception up to its face value by taking into account the discount on the conversion of the shares in the future and share price. During the financial year, the security was converted to equity.

NOTE 20: SHARE-BASED PAYMENTS

Share-based payments expense recognised during the financial year:	2019 $	2018 $
Shares issued to Key Management Personnel (KMP)[1]	-	25,000
Shares issued to KMP as 'sign-on' bonus[2]	-	46,250
	-	**71,250**

[1]The amount pertained to the entitlement of the Executives of the Company, J Ward and A Kollaras as part of their compensation. The shares were not issued as at 30 June 2018 totaling to 142,857 shares valued at $0.175 per share. The shares were ultimately issued on 15 February 2019.

[2]Pertained to a sign-on bonus to J Prendergast after joining as a Non-Executive Director of the Company. The allocation of 250,000 shares was subject to shareholder approval at the Annual General Meeting held on 29 November 2018. The shares were ultimately issued on 15 February 2019.

NOTE 21: RELATED PARTY TRANSACTIONS

Parent entity

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

Subsidiaries

Interests in subsidiaries are disclosed in Note 23.

	2019 $	2018 $
Key management personnel compensation		
- Short-term employee benefits	887,764	836,678
- Post-employment benefits	130,859	108,341
- Termination payments	-	21,263
- Share-based payments	-	71,250
	1,018,623	**1,037,532**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 21: RELATED PARTY TRANSACTIONS (Continued)

The following transactions occurred with related parties:

Superannuation contributions

Contributions to superannuation funds on behalf of employees	**130,859**	**108,341**

At 30 June 2019, Dr Graham Melrose had lent the company $150,000 (2018: $nil). Any other loans during the year had been repaid by balance date. Interest paid or payable to Dr Melrose for the year ended 30 June 2019 totalled $8,854.52 (2018: $nil). Mr James Graham also advanced funds to the Company during the year ended 30 June 2019 which were fully repaid at year end. Interest paid to Mr Graham totalled $424.66 (2018: $nil).

There were no other related party transactions during the financial year.

NOTE 22: PARENT ENTITY INFORMATION

The following information relates to the parent entity, Recce Pharmaceuticals Ltd, as at 30 June 2019. The information presented hereto has been prepared using accounting policies consistent with those presented in Note 2.

(a) Summarised statement of financial position

Current assets	453,101	708,497
Non-current assets	469,083	435,240
Total assets	**922,184**	**1,143,737**
Current liabilities	1,273,340	416,391
Non-current liabilities	54,448	32,431
Total liabilities	**1,327,788**	**448,822**
Share capital	11,573,369	10,031,509
Reserves	1,662,549	1,515,731
Accumulated losses	(13,641,522)	(10,852,325)
Net Assets	**(405,604)**	**694,915**

(b) Summarised consolidated statement of profit or loss and other comprehensive income

	2019	**2018**
	$	**$**
Loss for the year	(2,789,197)	(1,674,288)
Other comprehensive income	-	-
Total comprehensive loss for the year	**(2,789,197)**	**(1,674,288)**

The parent entity has no contingent liabilities as at 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2019

NOTE 23: INTEREST IN SUBSIDIARIES

		Percentage Owned	
		2019	**2018**
	Country of Incorporation	**%**	%
Parent entity			
Recce Pharmaceuticals Ltd	Australia	-	-
Subsidiaries			
Recce (USA) LLP	United States	100	100
Recce (UK) Limited	United Kingdom	100	100

NOTE 24: EVENTS SUBSEQUENT TO REPORTING PERIOD

Subsequent to year end, John Prendergast was appointed Chairman and Justin Ward was appointed a director. The Company also received a further R&D advance from Radium Capital in the amount of $262,462.

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.