



Recce Limited

ABN 73 124 849 065

Appendix 4E

Annual Report for the financial year ended 30 June 2016

Results for Announcement to the Market

	12 months to 30 June 2016	12 months to 30 June 2015	% Change
	\$	\$	
Revenue from ordinary activities	180,621	113,854	59
Loss from ordinary activities after tax attributable to members	(4,840,358)	(450,166)	(975)
Net loss for the period attributable to members	(4,840,358)	(450,166)	(975)

Details of Reporting Period	
Current reporting period	Twelve (12) months to 30 June 2016
Previous reporting period	Twelve (12) months to 30 June 2015

Dividends – 12 months to 30 June 2016	Amount per Security	Franked amount per Security	
Final dividend	Nil	Nil	0%
Interim dividend	Nil	Nil	0%

	30 June 2016	30 June 2015
Net tangible asset backing per ordinary share	\$0.05	\$0.01

The remainder of the information requiring disclosure to comply with listing rule 4.3A is contained in the Operating and Financial Review section of the June 2016 Directors' Report and the audited Financial Statements for the year ended 30 June 2016, within the Recce Ltd Financial Report for the Year Ended 30 June 2016, lodged with this Appendix 4E.



RECCE LTD

Financial Report for the Year Ended

30 June 2016

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DIRECTORS' REPORT

Your Directors present their report on the Group for the year ended 30 June 2016.

Directors

The names of Directors in office at any time during or since the end of the year are:

Dr Graham Melrose	
Mr Ian Brown	Resigned 8 April 2016
Ms Michele Dilizia	
Prof Dongke Zhang	Resigned 8 April 2016
Mr James Graham	
Dr Dominic Barnes	Appointed 14 May 2016
Ms Bernadette Murdoch	Appointed 26 May 2016

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

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Mr Peter John Williams — Bachelor of Business, FCPA, MAICD. Mr Williams has worked for Recce Ltd since 19 May 2015 as Chief Financial Officer and Company Secretary. Mr Williams was appointed Company Secretary on 3 June 2015.

1. Principal Activities

The principal activities of the Group during the financial year were related to the research and development of antibiotic drugs.

2. Operating Results

The loss of the Group amounted to \$4,840,358 (2015: \$450,166 loss)

3. Dividends Paid or Recommended

No dividends have been paid or declared for payment.

4. Review of Operations

Research & Development Activities

During the year the Company undertook many tests of its antibiotic drug.

- On 15 January 2016 it was announced that a test of efficacy, conducted by a Contract Research Organisation (CRO) in the US, performed equally or better than a commercial antibiotic against the superbug Methicillin Resistant *Staphylococcus aureus* (MRSA).
- On 27 January 2016 the Company announced that laboratory tests showed that Recce's antibiotic was able to kill both *Mycobacterium fortuitum* (the model for TB disease) and *Neisseria gonorrhoeae* (causing gonorrhoea).
- On 2 February 2016 the Company announced that despite increasing the "normal" dose of Recce antibiotic by a factor of 8 there was no undue toxicity observed and yet the efficacy of the drug was maintained.
- On 14 March 2016 the Company announced that Recce's antibiotic had demonstrated anticancer activities against each of 7 human cell lines of cancers: Leukaemia, stomach, intestine, breast, melanoma and kidney.
- On 25 May 2016 the Company announced that no signs of toxicity in mice was observed after repeatedly injecting them with therapeutic doses of RECCE® 327.
- On 21 June 2016 the Company updated the investors with a detailed list of the tests (approximately 20 in total) that would be undertaken over the next 8 months together with providing an indication of when the results of these tests would be available.

DIRECTORS' REPORT (CONT'D)

Patents/Trademarks

During the year, continued efforts were made to protect the Intellectual Property of the Group.

- On 15 January 2016 the Company announced that its patent for P.R. China Application 200880124515.5 had been granted for patent Family 1.
- On 15 January 2016 it was also announced that the Trade Mark for RECCE had been accepted and registered in Australia and that applications had been made in Europe, USA, Japan and China.
- On 14 March 2016 the Company announced it had lodged provisional patents in relation to its anti-cancer activities.

Administration

This year has been a very busy and exciting year for the Group.

- The Company converted to a public company on 21 August 2015.
- The Company issued its prospectus on 1 September 2015.
- On 24 December 2015 the Company closed the IPO oversubscribed.
- On 15 January 2016 Recce Ltd listed on the ASX at a 50% premium to the offer price of \$0.20 per share.
- In May 2016 two new Independent Directors were appointed.

5. Financial Position

The Directors believe that the Group is in a strong financial position to ensure that it is able to meet all its commitments as and when they fall due.

6. Significant Changes in State of Affairs

During the year the Company has undergone some significant changes. On 21 August 2015 the Company converted from a proprietary limited company to a public company. On 31 December 2015 the Company issued 25 million ordinary shares as part of its successful IPO to raise \$5 million. On 5 January 2016 a further 2,550,000 shares were issued to State One as payment for successfully managing the Company's IPO. On 16 February 2016, 4,152,423 Class A Performance Shares were converted to ordinary shares as a result of the Company achieving the milestone applicable to these Performance Shares.

7. Future Developments, Prospects and Business Strategies

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

8. Environmental Issues

The Group is not aware of any environmental issue.

9. Subsequent Events

On 13 July 2016 the Company announced that anti-viral activity was evident during in-vitro tests of RECCE[®] 327 against influenza.

On 15 July 2016 the Company issued 3,543,000 ordinary shares to Dr Graham Melrose. These shares were issued on the conversion of 3,453,000 Class A Performance Shares.

On 15 August 2016 the Company announced that test results showed that up to four times the normal dose of RECCE[®] 327 could be tolerated by mice without any stress from toxicity.

No other matter or circumstance has arisen since 30 June 2016, which has significantly affected, or may significantly affect the state of affairs of the Group in subsequent financial years.

DIRECTORS' REPORT (CONT'D)

10. Information on Directors

Dr Graham Melrose

Qualifications

Experience

Chairman (Executive)

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

Founder of Recce and inventor of RECCE antibiotics.

Previously, founded Chemeq Ltd and under his leadership and R&D direction, achieved over a three-year period, the top capital gain of all companies listed on the ASX, and an average market capitalisation of approximately \$500 million.

Earlier, a senior academic in the University of NSW's Department of Applied Organic Chemistry; visiting research scientist at Oxford and Munich universities.

Executive Director and Chief Research Executive of Johnson & Johnson (Aust) Pty Ltd in Sydney, with global responsibilities, particularly in the Asia-Pacific.

Established and operated for some ten years, an industry-leading marketing consultancy.

Interest in Shares

1,472,043 Ordinary Shares*

24,300,960 Ordinary Shares*

4,602,000 Class A Performance Shares*

6,075,000 Class B Performance Shares*

6,075,000 Class C Performance Shares*

6,075,000 Class D Performance Shares*

*held jointly with wife Olga Mary Melrose

Special Responsibilities

Chairman of the Board of Directors

Directorships held in other listed entities during the last three years

Nil

Mr Ian Brown

Qualifications

Experience

Director (Non-Executive)

MBA, EiR, FAICD, FAIM

Appointed a Director on 23 June 2015 and resigned on 8 April 2016.

Has market-developed with big PharmCos – as well as listed PharmCos on NYSE, SGX and ASX – involving IPOs, fundraising and licensing.

Entrepreneur in Residence at INSEAD.

Has worked in Melbourne, Perth, Gothenburg, Milan and London, playing a lead-role in significant projects throughout Asia, Japan, Europe and the United States.

Executive Director/Senior Executive experience in companies manufacturing/selling chemicals, polymers, healthcare products and pharmaceuticals.

Interest in Shares

281,250 Ordinary Shares

56,250 Class B Performance Shares

56,250 Class C Performance Shares

56,250 Class D Performance Shares

Special Responsibilities

Chairman of the Audit and Risk Management Committee and a member of the Nomination and Remuneration Committee.

Directorships held in other listed entities during the last three years

Nil

DIRECTORS' REPORT (CONT'D)

Prof Dongke Zhang

Qualifications

Experience

Director (Non-Executive)

FTSE, BE, ME, PhD, FIChemE, CEng, CSci, FIEAust, CPEng, FAIE
Appointed a Director on 23 June 2015 and resigned on 8 April 2016.

Designed and built the first pilot plant for Chemeq Ltd.

Technical Executive/Director of innovative technology companies.

Consultant to a range of Australia's top companies.

Awarded the status of Distinguished Professor at Curtin University;
now a Professor in chemical engineering at University of WA.

Voted as among the top 100 most influential engineers in Australia.

Regularly visits China where fellowships have been established in
his honour.

Interest in Shares

281,250 Ordinary Shares
56,250 Class B Performance Shares
56,250 Class C Performance Shares
56,250 Class D Performance Shares

Special Responsibilities

Chairman of the Nomination and Remuneration Committee and a
member of the Audit and Risk Management Committee.

Directorships held in other listed entities

Nil

Mr James Graham

Qualifications

Experience

Director (Executive)

BCom (Entrepreneurship), GAICD

Appointed a Director on 23 June 2015.

Committee-member of WA Angel Investors; entrepreneurship and
marketing.

Previously, General Manager of start-up marine company with sales
in Australia, Asia and Europe.

Investor (Non-professional) in ASX-listed technology companies.

Closely involved in the early growth and direction of Recce – initiated
and facilitated funding.

Interest in Shares

Direct
1,948,561 Ordinary Shares
389,712 Class B Performance Shares
389,712 Class C Performance Shares
389,712 Class D Performance Shares
Indirect
345,000 Ordinary Shares
1,436,250 Ordinary Shares
356,250 Class B Performance Shares
356,250 Class C Performance Shares
356,250 Class D Performance Shares

Special Responsibilities

Member of the Audit and Risk Management Committee.

Directorships held in other listed entities
during the last three years

Nil

DIRECTORS' REPORT (CONT'D)

Ms Michele Dilizia

Director (Executive)	Director (Executive)
Qualifications	BSC (Med Sci), Grad Dip Bus (Mkting), BA (Journ), GAICD
Experience	Appointed a Director on 23 June 2015. Qualified Medical Scientist; specialisation is medical microbiology. Earlier a successful executive career in public relations and marketing for a leading retail chain. Began with journalism and then post-graduate qualifications in business. Market research consultant, which included marketing development of health-care and pharmaceutical products.
Interest in Shares	2,886,061 Ordinary Shares 577,212 Class B Performance Shares 577,212 Class C Performance Shares 577,212 Class D Performance Shares
Special Responsibilities	Member of the Nomination and Remuneration Committee.
Directorships held in other listed entities during the last three years	Nil

Dr Dominic Barnes

Director (Non-Executive)	Director (Non-Executive)
Qualifications	FAICD, MMedSc, MBA, BBS
Experience	Appointed a director on 14 May 2016. Has had directorships or senior regulatory appointments with the Australian subsidiary companies of leading global pharmaceutical companies: Shire, AstraZeneca and Johnson & Johnson; he is also a leading member of medical, government and academic institutions in Australia.
Interest in Shares	Nil
Special Responsibilities	Dominic is Chairman of the Nomination and Remuneration Committee and a member of the Audit and Risk Management Committee.
Directorships held in other listed entities during the last three years	Nil

Ms Bernadette Murdoch

Director (Non-Executive)	Director (Non-Executive)
Qualifications	Appointed a director on 26 May 2016. Bachelor Public Relations. Completed a Bachelor of Arts in Public Relations at RMIT University including an exchange program with Leeds Metropolitan University, UK.
Experience	A broad range of skills and experience in leadership; issues and crisis communications; brand building and product communications; corporate communications; media and blogger relations; government relations; employee engagement and change management.
Interest in Shares	Nil
Special Responsibilities	Bernadette is Chairperson of the Audit and Risk Management Committee and a member of the Nomination and Remuneration Committee.
Directorships held in other listed entities during the last three years	Nil

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel (“KMP”) remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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

For the purposes of this Remuneration Report, KMP includes the following Directors and Senior Executives who were engaged by the Company at any time during the year ended 30 June 2016:

i) Non-Executive Directors

Ian Brown	Non-Executive Director (<i>appointed 23 June 2015, resigned 8 April 2016</i>)
Dongke Zhang	Non-Executive Director (<i>appointed 23 June 2015, resigned 8 April 2016</i>)
Dominic Barnes	Non-Executive Director (<i>appointed 14 May 2016</i>)
Bernadette Murdoch	Non-Executive Director (<i>appointed 26 May 2016</i>)

ii) Executive Directors

Graham Melrose	Executive Chairman (<i>appointed 11 April 2007</i>)
James Graham	Executive Director (<i>appointed 23 June 2015</i>)
Michele Dilizia	Executive Director (<i>appointed 23 June 2015</i>)

iii) Key Management Personnel

Peter Williams	CFO and Company Secretary (<i>appointed 19 May 2015</i>)
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The Remuneration Report covers the following matters:

- Principles used to determine the nature and amount of remuneration;
- Executive service agreements;
- Details of remuneration;
- Share-based remuneration;
- Other transactions with Key Management Personnel; and
- Other information.

(A) Principles used to determine the nature and amount of remuneration

In determining competitive remuneration rates, the Board seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice may also be obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

Executive Remuneration

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

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

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

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

- Reward reflects the competitive global market in which we operate;
- Rewards to executives are linked to creating value for shareholders;
- Remuneration arrangements are equitable and facilitate the development of senior management across the consolidated entity; and
- Where appropriate senior managers may receive a component of their remuneration in equity securities to align their interests with those of the shareholders.

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (AUDITED) (CONT'D)

The total remuneration of executives and other senior managers consists of the following:

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

Non-Executive Remuneration

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

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

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

(B) Executive Service Agreements

Name	Base Salary	Performance-Based Incentives	Term	Notice Period
Graham Melrose	\$190,000 pa	Nil	5 years effective from 1 July 2015	3 months
James Graham	\$123,287 pa	Nil	2 years effective from 1 February 2015	3 months
Michele Dilizia	\$91,324 pa	Nil	1 year effective from 1 July 2015	3 months
Peter Williams	\$140,000 pa	Nil	5 years effective from 19 May 2015	3 months

The appointments of Mr Brown, Prof Zhang, Dr Barnes and Ms Murdoch as Non-Executive Directors were/are subject to the terms and conditions set out in their respective letters of appointment. Each of the Non-Executive Directors received/receive \$45,000 per annum. None of the Non-Executive Directors are entitled to termination payments.

(C) Details of Remuneration

Director and other KMP Remuneration

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

Name	Year	Short term benefits, cash salary and fees (\$)	Superannuation (post-employment benefit) (\$)	Termination payments (\$)	Other benefits (\$)	Share-based payments (\$)	Total (\$)	Relevant to Share-based Payments %	Percentage Performance Related %
Directors									
G Melrose	2016	150,733	14,320	-	-	2,053,350	2,218,403	93%	-
M Dilizia	2016	69,742	6,625	-	-	372,944	449,311	83%	-
J Graham	2016	118,236	11,232	-	-	429,982	559,450	77%	-
D Zhang ¹	2016	35,601	-	-	-	19,013	54,614	35%	-
I Brown ¹	2016	34,615	-	-	-	19,013	53,628	35%	-
D Barnes ²	2016	-	-	-	-	3,945	3,945	100%	-
B Murdoch ³	2016	-	-	-	-	2,959	2,959	100%	-
Executives									
P Williams	2016	135,000	12,825	-	-	19,013	166,838	11%	-
		543,927	45,002	-	-	2,920,218	3,509,147		

¹ D Zhang and I Brown resigned from the Board on 8 April 2016

² D Barnes was appointed to the Board on 14 May 2016

³ B Murdoch was appointed to the Board on 26 May 2016

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (AUDITED) (CONT'D)

Name	Year	Short term benefits, cash salary and fees (\$)	Superannuation (post-employment benefit) (\$)	Termination payments (\$)	Other benefits (\$)	Share-based payments (\$)	Total (\$)	Relevant to Share-based Payments %	Percentage performance related
Directors									
G Melrose	2015	111,400	10,583	-	-	-	121,983		-
M Dilizia	2015	48,170	4,576	-	-	-	52,746		-
J Graham	2015	41,067	3,901	-	-	-	44,968		-
D Zhang ¹	2015	-	-	-	-	30,000	30,000	100%	-
I Brown ¹	2015	-	-	-	-	30,000	30,000	100%	-
D Barnes ²	2015	-	-	-	-	-	-		-
B Murdoch ³	2015	-	-	-	-	-	-		-
Executives									
P Williams	2015	15,333	1,457	-	-	30,000	46,790	64%	-
		<u>215,970</u>	<u>20,517</u>	<u>-</u>	<u>-</u>	<u>90,000</u>	<u>326,487</u>		

¹ D Zhang and I Brown resigned from the Board on 8 April 2016

² D Barnes was appointed to the Board on 14 May 2016

³ B Murdoch was appointed to the Board on 26 May 2016

(D) Share-based Remuneration

Details of share based payments in the Group during the year are set out in Note 19.

(i) Issue of ordinary shares

On 1 July 2015 the Company issued 1,778,466 fully paid ordinary shares to 2 of its directors for services provided. These shares were then split on the ratio 3 for 2. A summary of this event is as follows:

Director	Shares issued 1 July 2015	Additional shares from Split	Total shares from this issue
J Graham	889,233	444,616	1,333,849
M Dilizia	889,233	444,616	1,333,849
	<u>1,778,466</u>	<u>889,232</u>	<u>2,667,698</u>

The two Non-Executive Directors, appointed in May 2016 are entitled to receive \$30,000 of shares in the Company for each year of service completed. Accordingly a pro-rata accrual has been expensed for this entitlement.

(ii) Issue of Options

No options were issued to Directors or KMP as part of compensation during the period ended 30 June 2016.

(iii) Issue of Performance Shares

During the year 35,017,692 Performance Shares were issued to Directors and employees. Four classes of Performance Shares were issued. The details of the terms and conditions of the Performance Shares are as follows:

Terms and Conditions of Performance Shares

The terms and conditions of the Performance Shares are intended to be as follows:

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (AUDITED) (CONT'D)

Rights attaching to the Performance Shares

- (a) **(Performance Shares)** Each Performance Share is a share in the capital of the Company.
- (b) **(General Meetings)** Each Performance Share confers on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to holders of fully paid ordinary shares in the capital of the Company (**Shareholders**). Holders have the right to attend general meetings of Shareholders.
- (c) **(No Voting Rights)** A Performance Share does not entitle the Holder to vote on any resolutions proposed by the Company except as otherwise required by law.
- (d) **(No Dividend Rights)** A Performance Share does not entitle the Holder to any dividends.
- (e) **(No rights on return of capital)** A Performance Share does not entitle the Holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.
- (f) **(Rights on Winding Up)** A Performance Share does not entitle the Holder to participate in the surplus profits or assets of the Company upon winding up.
- (g) **(Not Transferable)** A Performance Share is not transferable.
- (h) **(Reorganisation of Capital)** If at any time the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.
- (i) **(Application to ASX)** The Performance Shares will not be quoted on ASX. However, if the Company is listed on ASX at the time of conversion of the Performance Shares into fully paid ordinary shares (**Shares**), the Company must within 10 Business Days apply for the official quotation of the Shares arising from the conversion on ASX.
- (j) **(Participation in entitlements and bonus issues)** A Performance Share does not entitle a Holder (in their capacity as a holder of a Performance Share) to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (k) **(No Other Rights)** A Performance Share gives the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.
- (l) **(Conversion on Achievement of Milestone)** Subject to paragraph (m), a Performance Share in the relevant class will convert into one Share upon achievement of:
 - (i) Class A: the volume weighted average price of Shares as traded on ASX over 20 consecutive trading days on which the Shares are traded is not less than \$0.30 on or before 19 August 2020 (**Milestone**).
 - (ii) Class B: the Company is awarded the US Food and Drug Administration's (FDA) Investigational New Drug (IND) status (or European equivalent – European Medicines Agency (EMA)) on or before 19 August 2020 (**Milestone**).
 - (iii) Class C: the volume weighted average price of Shares as traded on ASX over 20 consecutive trading days on which the Shares are traded is not less than \$0.60 on or before 20 August 2020 (**Milestone**).
 - (iv) Class D: the volume weighted average price of Shares as traded on ASX over 20 consecutive trading days on which the Shares are traded is not less than \$1.20 on or before 20 August 2020 (**Milestone**).

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (AUDITED) (CONT'D)

- (m) **(Deferral of Conversion if Resulting in a Prohibited Acquisition of Shares)** If the conversion of a Performance Share would result in any person being in contravention of section 606(1) of the Corporations Act 2001 (Cth) **(General Prohibition)** then the conversion of that Performance Share shall be deferred until such later time or times that the conversion would not result in a contravention of the General Prohibition. In assessing whether a conversion of a Performance Share would result in a contravention of the General Prohibition:
- (i) Holders may give written notification to the Company if they consider that the conversion of a Performance Share may result in the contravention of the General Prohibition. The absence of such written notification from the Holder will entitle the Company to assume the conversion of a Performance Share will not result in any person being in contravention of the General Prohibition.
 - (ii) The Company may (but is not obliged to) by written notice to a Holder request a Holder to provide the written notice referred to in paragraph (m)(i) within seven days if the Company considers that the conversion of a Performance Share may result in a contravention of the General Prohibition. The absence of such written notification from the Holder will entitle the Company to assume the conversion of a Performance Share will not result in any person being in contravention of the General Prohibition.
- (n) **(Redemption if Milestone not Achieved)** If the relevant Milestone is not achieved by the required date, then each Performance Share in that class will be automatically redeemed by the Company for the sum of \$0.00001 within 10 Business days of non-satisfaction of the Milestone.
- (o) **(Conversion Procedure)** The Company will issue the Holder with a new holding statement for any Share issued upon conversion of a class of Performance Shares within 10 Business Days following the conversion.
- (p) **(Ranking upon Conversion)** The Share into which the Performance Share may convert will rank pari passu in all respects with existing Shares.

Details of Performance Shares issued

On 19 August 2015 the Company issued to Directors and Key Management Personnel the following Performance Shares:

- 7,566,924 Class A Performance Shares; and
- 7,566,924 Class B Performance Shares

On 20 August 2015 the Company issued to Directors and Key Management Personnel the following Performance Shares:

- 7,566,924 Class C Performance Shares; and
- 7,566,924 Class D Performance Shares

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (AUDITED) (CONT'D)

A summary of these transactions are as follows:

	Performance Shares			
	Class A	Class B	Class C	Class D
Directors				
G Melrose	6,075,000	6,075,000	6,075,000	6,075,000
J Graham	745,962	745,962	745,962	745,962
M Dilizia	577,212	577,212	577,212	577,212
I Brown	56,250	56,250	56,250	56,250
D Zhang	56,250	56,250	56,250	56,250
Key Management				
P Williams	56,250	56,250	56,250	56,250
	7,566,924	7,566,924	7,566,924	7,566,924
Value ¹ per performance share	\$0.173	Nil	\$0.111	\$0.054

¹ The Trinomial option pricing model has been used to calculate the value of Class A, Class C and Class D performance shares. Class B performance shares have a non-market vesting condition i.e. the Company is awarded the US Food and Drug Administration's Investigational New Drug (IND) status on or before 19 August 2020. The multiplicity of the inter-dependent variables required for the achievement of IND status means there is no statistical data to support the probability of Class B performance shares vesting. Accordingly a value of zero has been assigned to these shares. There were also an additional 4,749,996 performance shares issued to employees apportioned across the performance share classes. The following assumptions were used:

	Class A	Class C	Class D
Underlying share price	\$0.20	\$0.20	\$0.20
20-day VWAP barrier	\$0.30	\$0.60	\$1.20
Term	5 Years	5 Years	5 Years
Risk-free rate	2.18%	2.18%	2.18%
Number of Performance Shares	8,754,423	8,754,423	8,754,423

Equity instrument disclosures relating to key management personnel

Ordinary Shares

The numbers of shares in the Company held during the period by each Director of Recce Ltd and other KMP of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2016	Balance at the Start of the Period	Share Split	Conversion of Performance Shares	Share Based Payment	Balance at date of resignation	Balance at the End of the Period
Directors						
G Melrose	16,200,002	8,100,001	1,473,000 ¹	-		25,773,003
I Brown	150,000	75,000	56,250	-	281,250	-
D Zhang	150,000	75,000	56,250	-	281,250	-
D Barnes	-	-	-	-	-	-
B Murdoch	-	-	-	-	-	-
J Graham	1,100,000	994,616	745,962	889,233		3,729,811
M Dilizia	650,000	769,616	577,212	889,233		2,886,061
Executives						
P Williams	150,000	75,000	56,250	-		281,250
	18,400,002	10,089,233	2,964,924	1,778,466	562,500	32,670,125

¹ Although G Melrose was entitled to convert 6,075,000 Class A Performance Shares he was restricted to convert only 1,473,000 Performance Shares as a result of the application of section 606(1) of the *Corporations Act 2001*.

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (AUDITED) (CONT'D)

Performance Shares

The numbers of performance shares in the Company held during the period by each Director of Recce Ltd and other KMP of the Group, including their personally related parties, are set out below.

2016	Balance at the Start of the Period	Granted	Converted to Shares ¹	Lapsed Unexercised	Balance at date of resignation	Balance at the End of the Period
Directors						
G Melrose ²	-	24,300,000	(1,473,000)	-	-	22,827,000
I Brown	-	225,000	(56,250)	-	168,750	-
D Zhang	-	225,000	(56,250)	-	168,750	-
D Barnes	-	-	-	-	-	-
B Murdoch	-	-	-	-	-	-
J Graham	-	2,983,848	(745,962)	-	-	2,237,886
M Dilizia	-	2,308,848	(577,212)	-	-	1,731,636
Executives						
P Williams	-	225,000	(56,250)	-	-	168,750
		30,267,696	(2,964,924)	-	337,500	26,965,272

¹ The first milestone associated with Class A Performance Shares was achieved i.e. the volume weighted average price of Shares as traded on ASX over 20 consecutive trading days on which the Shares are traded is not less than \$0.30.

² Although G Melrose was entitled to convert 6,075,000 Class A Performance Shares he was restricted to convert only 1,473,000 Performance Shares as a result of the application of section 606(1) of the *Corporations Act 2001*.

Performance Shares Awarded, Vested and Lapsed During the Year

The tables below discloses the number of performance shares granted to KMP as remuneration during FY2016 as well as the number of performance shares that vested or lapsed/forfeited during the year.

Performance shares do not carry any voting or dividend rights and will convert once the vesting conditions have been met.

Class A Performance Shares

	Year Granted	No. Granted	Grant date value per share	Exercised %	Exercised number	Forfeited %	Financial years in which shares may vest	Maximum value yet to exercise \$
Directors								
G Melrose ¹	2015	6,075,000	\$0.173	24	1,473,000	-	*	796,146
I Brown	2015	56,250	\$0.173	100	56,250	-	*	-
D Zhang	2015	56,250	\$0.173	100	56,250	-	*	-
D Barnes	-	-	-	-	-	-	-	-
B Murdoch	-	-	-	-	-	-	-	-
J Graham	2015	745,962	\$0.173	100	745,962	-	*	-
M Dilizia	2015	577,212	\$0.173	100	577,212	-	*	-
Executives								
P Williams	2015	56,250	\$0.173	100	56,250	-	*	-
		7,566,924			2,964,924	-		796,146

¹ Although G Melrose was entitled to convert 6,075,000 Class A Performance Shares he was restricted to convert only 1,473,000 Performance Shares as a result of the application of section 606(1) of the *Corporations Act 2001*

* These performance shares could have vested in any year up until 19 August 2020.

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (AUDITED) (CONT'D)

Class B Performance Shares

	Year Granted	No. Granted	Grant date value per share	Vested %	Vested number	Forfeited %	Financial years in which shares may vest	Maximum value yet to vest \$
Directors								
G Melrose	2015	6,075,000	Nil	-	-	-	*	-
I Brown	2015	56,250	Nil	-	-	-	*	-
D Zhang	2015	56,250	Nil	-	-	-	*	-
D Barnes	-	-	-	-	-	-		-
B Murdoch	-	-	-	-	-	-		-
J Graham	2015	745,962	Nil	-	-	-	*	-
M Dilizia	2015	577,212	Nil	-	-	-	*	-
Executives								
P Williams	2015	56,250	Nil	-	-	-	*	-
					7,566,924	-	-	-

* These performance shares could vest in any year up until 19 August 2020.

Class C Performance Shares

	Year Granted	No. Granted	Grant date value per share	Vested %	Vested number	Forfeited %	Financial years in which shares may vest	Maximum value yet to vest \$
Directors								
G Melrose	2015	6,075,000	\$0.111	-	-	-	*	674,325
I Brown	2015	56,250	\$0.111	-	-	-	*	6,244
D Zhang	2015	56,250	\$0.111	-	-	-	*	6,244
D Barnes	-	-	-	-	-	-		-
B Murdoch	-	-	-	-	-	-		-
J Graham	2015	745,962	\$0.111	-	-	-	*	82,802
M Dilizia	2015	577,212	\$0.111	-	-	-	*	64,071
Executives								
P Williams	2015	56,250	\$0.111	-	-	-	*	6,244
					7,566,924	-	-	839,930

* These performance shares could vest in any year up until 20 August 2020.

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (AUDITED) (CONT'D)

Class D Performance Shares

	Year Granted	No. Granted	Grant date value per share	Vested %	Vested number	Forfeited %	Financial years in which shares may vest	Maximum value yet to vest \$
Directors								
G Melrose	2015	6,075,000	\$0.054	-	-	-	*	328,050
I Brown	2015	56,250	\$0.054	-	-	-	*	3,037
D Zhang	2015	56,250	\$0.054	-	-	-	*	3,037
D Barnes	-	-	-	-	-	-		-
B Murdoch	-	-	-	-	-	-		-
J Graham	2015	745,962	\$0.054	-	-	-	*	40,282
M Dilizia	2015	577,212	\$0.054	-	-	-	*	31,169
Executives								
P Williams	2015	56,250	\$0.054	-	-	-	*	3,037
		7,566,924						408,612

* These performance shares could vest in any year up until 20 August 2020.

(E) Other transactions with key management personnel

During the reporting period, the Group did not have any other transactions with key management personnel.

(F) Other information

Loans to key management personnel

There were no loans, payables, receivables of other transactions at the end of the period to Directors and other key management personnel and their related parties of Recce Ltd or the consolidated entity.

Reliance on external remuneration consultants

During the period, there were no external remuneration consultants engaged.

END OF REMUNERATION REPORT (AUDITED)

DIRECTORS' REPORT (CONT'D)

11. Meetings of Directors

During the financial year, 13 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Committee Meetings					
	Directors' Meetings		Audit & Risk Management Committee		Nomination & Remuneration Committee	
	A	B	A	B	A	B
Dr Graham Melrose	7	7	-	-	-	-
Mr Ian Brown	5	5	3	3	3	3
Prof Dongke Zhang	5	5	3	3	3	3
Ms Michele Dilizia	7	7	-	-	3	3
Mr James Graham	7	7	3	3	-	-
Dr Dominic Barnes	1	1	-	-	-	-
Ms Bernadette Murdoch	1	1	-	-	-	-

A Number eligible to attend

B Number attended

12. Proceedings on Behalf of Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

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

13. Non-audit Services

During the year \$10,200 was paid to BDO for non-audit related services. This payment related to work undertaken to write the Investigating Accountants report for the Prospectus. No other fees were paid to the auditor of the Group for non-audit services.

14. Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 16 of the Directors' Report.

Signed in accordance with a resolution of the Board of Directors.



Dr Graham Melrose
Executive Chairman

Dated: 25 August 2016

DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF RECCE LTD

As lead auditor of Recce Ltd for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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



Jarrad Prue
Director

BDO Audit (WA) Pty Ltd
Perth, 25 August 2016

CORPORATE GOVERNANCE STATEMENT

The Board recognises the importance of establishing a comprehensive system of control and accountability as the basis for the administration of corporate governance.

To the extent applicable, the Group has adopted The Corporate Governance Principles and Recommendations (3rd Edition) as published by ASX Corporate Governance Council ("**Recommendations**").

The Board has adopted the following suite of corporate governance policies and procedures which are contained within the Company's **Corporate Governance Section** on the Company's website at www.recce.com.au

- Board Charter
- Audit and Risk Management Committee Charter
- Nomination and Remuneration Committee Charter
- Code of Conduct
- Shareholder Communications Strategy
- Corporate Governance Policy – Securities Trading
- Diversity Policy
- Continuous Disclosure Policy
- Policy and Procedure for Selection and Appointment of Directors
- Remuneration Policy for Executives and Non-Executive Directors
- Risk Management Policy

The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Group's needs.

The Group is pleased to report that its practices are largely consistent with the Recommendations of the ASX Corporate Governance Council and sets out below its compliance and departures from the Recommendations for the period ended 30 June 2016.

In the context of the Company's size and nature, the Board considers that the current corporate governance regime is a fit-for-purpose, efficient, practical and cost effective method of directing and managing the Group. As the Group's activities develop in size, nature and scope, the implementation of additional corporate governance policies and structures will be reviewed.

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<i>Principle 1: Lay solid foundations for management and oversight</i>		
Recommendation 1.1		
A listed entity should have and disclose a charter which sets out the respective roles and responsibilities of the Board, the Chair and management; and includes a description of those matters expressly reserved to the Board and those delegated to management.	YES	The Company has adopted a Board Charter which complies with the guidelines prescribed by the ASX Corporate Governance Council. A copy of the Company's Board Charter is available on the Company's website.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Recommendation 1.2		
<p>A listed entity should:</p> <p>(a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and</p> <p>(b) Provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a Director.</p>	YES	<p>(a) The Nomination and Remuneration Committee is responsible for recommendations to the Board for the selection and appointment of members of the Board. The Company's Nomination and Remuneration Committee Charter requires the Nomination and Remuneration Committee to undertake appropriate checks before the Board appoints a person, or putting forward to security holders a candidate for election, as a Director.</p> <p>During the financial year the Company undertook appropriate checks prior to putting forward Dr Dominic Barnes and Ms Bernadette Murdoch as candidates for election as Directors of the Company.</p> <p>(b) All material information relevant to the decision on whether or not to elect Dr Dominic Barnes and Ms Bernadette Murdoch, including information relating to their qualifications, experience and proposed roles within the Board will be set out in the Notice of Meeting which will be sent to all shareholders ahead of the Annual General Meeting to be held on 22 November 2016.</p>
Recommendation 1.3		
<p>A listed entity should have a written agreement with each Director and Senior Executive setting out the terms of their appointment</p>	YES	<p>The Company has written agreements with all Directors and Senior Executives which sets out the terms of their appointment.</p>
Recommendation 1.4		
<p>The Company Secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.</p>	YES	<p>The Board Charter outlines the roles, responsibility and accountability of the Company Secretary. The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.</p>

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Recommendation 1.5		
<p>A listed entity should:</p> <p>(a) Have a diversity policy which includes requirements for the Board:</p> <p>(i) to set measurable objectives for achieving gender diversity; and</p> <p>(ii) to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) Disclose that policy or a summary of it; and</p> <p>(c) Disclose as at the end of each reporting period:</p> <p>(i) the measurable objectives for achieving gender diversity set by the Board in accordance with the entity's diversity policy and its progress towards achieving them; and</p> <p>(ii) either:</p> <p>(A) the respective proportions of men and women on the Board, in Senior Executive positions and across the whole organisation (including how the entity has defined "Senior Executive" for these purposes); or</p> <p>(B) The entity's "Gender Equality Indicators", as defined in the Workplace Gender Equality Act 2012.</p>	<p>PARTIALLY (a)</p>	<p>The Company has adopted a Diversity Policy which complies with the guidelines prescribed by the ASX Corporate Governance Council, including:</p> <p>(i) the Diversity Policy provides a framework for the Company to set and achieve measurable objectives that encompass gender equality.</p> <p>(ii) the Diversity Policy provides for the monitoring and evaluation of the scope and currency of the Diversity Policy. The Company is responsible for implementing, monitoring and reporting on the measurable objectives.</p> <p>(b) The Diversity Policy is available on the Company's website.</p> <p>(c) Given the short time frame since the Company's admission to the official list of the ASX, the Company has yet to formally define the measurable objectives for achieving gender diversity as required under its Diversity Policy.</p> <p>With its new Board now in place, the Company intends to undertake a review of its Diversity Policy in the coming months and define the measurable objectives for achieving gender diversity, where appropriate.</p> <p>As at 30 June 2016, the respective proportions of men and women on the Board, in Senior Executive positions and across the whole organisation are set out below. The Company defines Senior Executives as those employees who report directly to the Executive Chairman or the Board.</p> <ul style="list-style-type: none"> • 60% of the Company's Board were male and 40% were female; • 100% of the Company's Senior Executives were male (excluding members of the Board) • 25% of the Group's entire workforce (including Board members) were female and 75% were male.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Recommendation 1.6		
<p>A listed entity should:</p> <p>(a) Have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and</p> <p>(b) Disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	YES	<p>(a) The Nomination and Remuneration Committee is responsible for evaluating the performance of the Board and individual Directors on an annual basis. The process for this is set out in the Company's Nomination and Remuneration Committee Charter which is available on the Company's website</p> <p>(b) Given the short timeframe since listing on the ASX, the Board did not undertake a performance evaluation of its Board or its individual Directors during the reporting period.</p>
Recommendation 1.7		
<p>A listed entity should:</p> <p>(a) Have and disclose a process for periodically evaluating the performance of its Senior Executives; and</p> <p>(b) Disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	YES	<p>(a) The Nomination and Remuneration Committee is responsible for evaluating the performance of Senior Executives on an annual basis in accordance with the Company's Nomination and Remuneration Committee Charter.</p> <p>(b) The Executive Chairman undertook performance evaluations following the anniversary of the commencement of each Executive's employment with the Company.</p>
Principle 2: Structure the Board to add value		
Recommendation 2.1		
<p>The Board of a listed entity should:</p> <p>(a) Have a nomination committee which:</p> <p>(i) has at least three members, a majority of whom are Independent Directors; and</p> <p>(ii) is chaired by an Independent Director, and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) If it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.</p>	YES	<p>(a) The Board has a Nomination and Remuneration Committee which has three members, the majority of which are independent and the Chair of the committee is an Independent Director.</p> <p>The times and attendance at each committee meeting is disclosed in section 10 of the Directors' Report.</p> <p>A copy of the Nomination and Remuneration Committee Charter is available on the Company's website.</p> <p>(b) The Board will devote time at annual Board meetings to discuss Board succession issues. All members of the Board are to be involved in the Company's nomination process, to the maximum extent permitted under the Corporations Act and ASX Listing Rules.</p>

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 2.2</p> <p>A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.</p>	YES	<p>The Board reviews its composition on an annual basis against a Board skills matrix. The Company's Board skills matrix is available on its website.</p>
<p>Recommendation 2.3</p> <p>A listed entity should disclose:</p> <p>(a) The names of the Directors considered by the Board to be Independent Directors;</p> <p>(b) If a Director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendations (3rd Edition), but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and</p> <p>(c) The length of service of each Director.</p>	YES	<p>(a) The Board Charter provides for the disclosure of the names of Directors considered by the Board to be independent. The current Independent Directors are Dr Barnes and Ms Murdoch.</p> <p>(b) The Board has determined and been assured of the independence of each of the Company's Directors in line with the guidance set out by the ASX's Corporate Governance Council.</p> <p>(c) The length of service of each Director is as follows:</p> <ul style="list-style-type: none"> • Dr Barnes was appointed on 14 May 2016 and has served as a Director for approximately 4 months; • Ms Murdoch was appointed on 26 May 2016 and has served as a Director for approximately 4 months; • Mr Graham and Ms Dilizia were appointed as Directors on 23 June 2015 and have served as Directors of the Company for approximately 15 months; and • Dr Melrose was appointed a Director of the Company on 11 April 2007 and has served as a Director of the Company for approximately 9 years and 5 months.
<p>Recommendation 2.4</p> <p>A majority of the Board of a listed entity should be Independent Directors.</p>	NO	<p>The Board Charter requires that where practical the majority of the Board will be independent.</p> <p>The Board currently comprises a total of 5 Directors, of whom 2 are considered to be independent. As such, Independent Directors are not currently an independent majority of the Board.</p> <p>The Board does not currently consider an independent majority of the Board to be appropriate given:</p> <p>(a) The magnitude of the Company's operations; and</p> <p>(b) The relevant skills and experience of Dr Melrose, Ms Dilizia and Mr Graham, together with the two Independent Directors, mean that the Board is appropriately skilled at this stage, to further the progress and development of the Company.</p> <p>The Company may seek to appoint additional Independent Directors in the future to address the lack of independence of its Directors.</p>

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 2.5</p> <p>The Chair of the Board of a listed entity should be an Independent Director and, in particular, should not be the same person as the CEO of the entity.</p>	NO	<p>The Chairman, Dr Melrose is an Executive Director and is not considered by the Board to be independent. The Board does not have an independent Chair because as founder of Recce and lead-inventor of the RECCE initial and ongoing technology, the Company considers that Dr Melrose is the best equipped person to progress the Company's future direction.</p> <p>The Company may seek to appoint an independent Chair in the future.</p>
<p>Recommendation 2.6</p> <p>A listed entity should have a program for inducting new Directors and providing appropriate professional development opportunities for continuing Directors to develop and maintain the skills and knowledge needed to perform their role as a Director effectively.</p>	YES	<p>The Nomination and Remuneration Committee is responsible for reviewing and recommending to the Board induction and professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities.</p> <p>As a result, the Company has in place a program for the induction of new Directors which is tailored to each new Director depending on their personal requirements, background skills, qualifications and experience and includes the provision of a formal letter of appointment and an induction pack containing sufficient information to allow the new Director to gain an understanding of the business of the Company, and the roles, duties and responsibilities of Directors and the Executive Team.</p> <p>All Directors are encouraged to undergo continual professional development and, subject to prior approval by the Chairman, all Directors have access to numerous resources and professional development training to address any skills gaps.</p> <p>In addition, opportunities to develop the skills and experience of individual Board members will be considered as part of the Company's annual Board performance review process.</p>
<p>Principle 3: Act ethically and responsibly</p>		
<p>Recommendation 3.1</p> <p>A listed entity should:</p> <p>(a) Have a code of conduct for its Directors, Senior Executives and employees; and</p> <p>(b) Disclose that code or a summary of it.</p>	YES	<p>(a) The Company has a Code of Conduct – the Company's Obligations to Stakeholders that applies to its Directors, employees and contractors (all of whom are referred to as "employees" under the Code).</p> <p>(b) The Company's Code of Conduct – the Company's Obligations to Stakeholders is available on the Company's website.</p>

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Principle 4: Safeguard integrity in financial reporting		
Recommendation 4.1		
<p>The Board of a listed entity should:</p> <p>(a) Have an audit committee which:</p> <ul style="list-style-type: none"> (i) has at least three members, all of whom are Non-Executive Directors and a majority of whom are Independent Directors; and (ii) is chaired by an Independent Director, who is not the Chair of the Board. <p>And disclose:</p> <ul style="list-style-type: none"> (i) the charter of the committee; (ii) the relevant qualifications and experience of the members of the committee; and (iii) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <p>(b) If it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	<p>PARTIALLY</p> <p>(a)</p> <p>(b)</p>	<p>The Company has an Audit and Risk Management Committee which has three members, the majority of whom are independent and the Chair of the committee is independent.</p> <p>The Audit and Risk Management Committee Charter is available on the Company's website.</p> <p>The Audit and Risk Management Committee devotes time on at least an annual basis to consider the robustness of the various internal control systems it has in place to safeguard the integrity of the Company's financial reporting.</p> <p>In addition, the Audit and Risk Management Committee has the opportunity to confer with the Company's external auditors on any matters identified during the course of the audit that have the potential to increase the Company's exposure to risks of material misstatements in its financial reports. To this end, the Company is pleased to confirm that no such matters were raised by the Company's auditors.</p> <p>The Audit and Risk Management Committee also assumes responsibility for recommendations to security holders on the appointment and removal of the external auditor. Audit partner rotations are enforced in accordance with the relevant guidelines.</p>
Recommendation 4.2		
<p>The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	<p>YES</p>	<p>Prior to the execution of the financial statements of the Company, the Company's Executive Chairman and CFO provided the Board with written assurances that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control which is operating effectively in all material aspects in relation to the Company's financial reporting risks.</p>
Recommendation 4.3		
<p>A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>	<p>YES</p>	<p>The Company intends to hold its first Annual General Meeting within the coming months. The Board will act so that the Company's external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Principle 5: Make timely and balanced disclosure		
Recommendation 5.1		
<p>A listed entity should:</p> <p>(a) Have a written policy for complying with its continuous disclosure obligations under the Listing Rules: and</p> <p>(b) Disclose that policy or a summary of it.</p>	YES	<p>(a) The Company has adopted a Continuous Disclosure Policy which details the processes and procedures which have been adopted by the Company so as to comply its continuous disclosure obligations as required under the ASX Listing Rules and other relevant legislation.</p> <p>(b) The Continuous Disclosure Policy is available on the Company's website.</p>
Principle 6: Respect the rights of security holders		
Recommendation 6.1		
<p>A listed entity should provide information about itself and its governance to investors via its website.</p>	YES	<p>Shareholders can access information about the Company and its governance (including its Constitution and adopted governance policies) from the Company's website on the "Corporate Governance" page.</p>
Recommendation 6.2		
<p>A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.</p>	YES	<p>The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with its investors. The Strategy outlines a range of ways in which information is communicated to shareholders.</p> <p>A copy of the Company's Shareholder Communications Strategy policy is available on the Company's website.</p>
Recommendation 6.4		
<p>A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.</p>	YES	<p>Security holders can register with the Company to receive email notifications when an announcement is made by the Company to the ASX.</p> <p>In the first instance, Shareholders' queries are referred to the CFO & Company Secretary.</p>

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Principle 7: Recognise and manage risk		
Recommendation 7.1		
<p>The Board of a listed entity should:</p> <p>(a) Have a committee or committees to oversee risk, each of which:</p> <p>(i) has at least three members, a majority of whom are Independent Directors; and</p> <p>(ii) is chaired by an Independent Director, and disclose:</p> <p>(iii) the charter of the committee</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) If it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.</p>	<p>YES</p>	<p>(a) The Board has an Audit and Risk Management Committee which has three members, the majority of which are independent and the Chair of the committee is independent.</p> <p>The time and attendance of each committee is disclosed in the Directors' Report.</p> <p>The Audit and Risk Management Committee Charter is available on the Company's website.</p> <p>(b) The Board devotes time on at least an annual basis to fulfil the roles and responsibilities associated with overseeing risk and maintaining the Company's risk management framework.</p>
Recommendation 7.2		
<p>The Board or a committee of the Board should:</p> <p>(a) Review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure that they remain within the risk appetite set by the Board; and</p> <p>(b) Disclose in relation to each reporting period, whether such a review has taken place.</p>	<p>YES</p>	<p>(a) The Audit and Risk Management Committee Charter sets out a requirement for the Audit and Risk Management Committee to review the Company's risk management framework on an annual basis.</p> <p>The Company monitors, evaluates and seeks to improve its risk management and internal control processes in line with the processes set out in its Risk Management Policy, a copy of which is available on the Company's website.</p> <p>In addition, the Company has a number of other policies that directly or indirectly serve to reduce and/or manage risk, including:</p> <ul style="list-style-type: none"> • Continuous Disclosure Policy • Code of Conduct • Trading Policy <p>(b) The Company formulated its risk management framework in preparation for the Company's admission to the official list of the ASX. Whilst a formal review of its risk management framework has not been undertaken since listing, the Board regularly considers risk on a formal basis and is satisfied that the Company's risk management framework continues to be sound, and that the material business risks remain within the risk appetite set by the Board.</p>

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Recommendation 7.3		
<p>A listed entity should disclose:</p> <p>(a) If it has an internal audit function, how the function is structured and what role it performs; or</p> <p>(b) If it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	YES	<p>(a) The Audit and Risk Management Committee Charter provides for the Audit and Risk Management Committee to monitor the need for an internal audit function. At this stage, due to the current size and nature of the existing Board and the magnitude of the Company's operations the Company does not have an internal audit function.</p> <p>(b) The Company has adopted a Risk Management Policy which the Company follows. The Audit and Risk Management Committee reviews on a regular basis the reports prepared by management in relation to the Company's risk profile.</p>
Recommendation 7.4		
<p>A listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	YES	<p>Prior to the Company's admission to the official list of the ASX, the Board undertook a thorough review of the Company's exposures to economic, environmental and social sustainability risks and disclosed these risks in its Prospectus dated 21 September 2015. A copy of this Prospectus is available on the Company's website at: www.recce.com.au</p>
Principle 8: Remunerate fairly and responsibly		
Recommendation 8.1		
<p>The Board of a listed entity should:</p> <p>(a) Have a remuneration committee which:</p> <p>(i) has at least three members, a majority of whom are Independent Directors; and</p> <p>(ii) is chaired by an Independent Director, and disclose;</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) If it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and Senior Executives and ensuring that such remuneration is appropriate and not excessive.</p>	YES	<p>(a) The Board has a Nomination and Remuneration Committee which has three members, the majority of whom are independent, and the Chair of the committee is an Independent Director.</p> <p>The times and attendance at each committee meeting is disclosed in the Directors' Report.</p> <p>The Nomination and Remuneration Committee Charter is available on the Company's website.</p> <p>(b) The Board ensures the roles and responsibilities associated with setting the level and composition of remuneration for Directors and Senior Executives and ensuring that such remuneration is appropriate and not excessive.</p>

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 8.2</p> <p>A listed entity should separately disclose its policies and practices regarding the remuneration of Non-Executive Directors and the remuneration of Executive Directors and other Senior Executives and ensure that the different roles and responsibilities of Non-Executive Directors compared to Executive Directors and other Senior Executives are reflected in the level and composition of their remuneration.</p>	<p>YES</p>	<p>The Company's Corporate Governance Plan requires the Board to disclose its policies and practices regarding the remuneration of Non-Executive and Executive Directors and other senior employees. This disclosure is set out in the Remuneration Report section of this Report.</p>
<p>Recommendation 8.3</p> <p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) Disclose that policy or a summary of it.</p>	<p>YES</p>	<p>(a) The Company's Nomination and Remuneration Committee is responsible for the review and recommendation to the Board of any equity-based remuneration schemes offered to Directors and employees of the Company. Further, in accordance with the Nomination and Remuneration Committee Charter, the Nomination and Remuneration Committee is also responsible for recommending, on a case by case basis, for scheme participants to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Scheme.</p> <p>(b) The Company's policy in this regard is set out in the Company's Nomination and Remuneration Committee Charter, a copy of which is available on the Company's website.</p>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$	2015 \$
Revenue from continuing operations	5	44,102	370
Other income	5	136,518	113,484
Total revenue		180,621	113,854
Employee benefits expense		(757,135)	(256,741)
Laboratory expenses		(142,249)	(53,880)
Share based payments expense	19	(3,321,593)	(91,319)
Rental expenses		(108,625)	(61,441)
Depreciation and amortisation expenses		(16,658)	(10,300)
Travel expenses		(92,671)	-
IPO expenses		(190,614)	-
Patent related costs		(78,332)	(46,126)
Other expenses	6	(304,063)	(43,962)
Finance costs	6	(9,039)	(251)
Loss before income tax		(4,840,358)	(450,166)
Income tax (expense)/benefit	4	-	-
Loss after income tax		(4,840,358)	(450,166)
Other comprehensive income			
Other comprehensive income for the year net of income tax		-	-
Total comprehensive loss for the year		(4,840,358)	(450,166)
Earnings per share for loss from continuing operations attributable to owners of Recce Ltd			
Basic and diluted loss per share (cents)	7	(8.61)	(1.35)
Earnings per share for loss attributable to owners of Recce Ltd			
Basic and diluted loss per share (cents)	7	(8.61)	(1.35)
Dividends per share (cents)		-	-

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

	Note	2016 \$	2015 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	3,591,382	451,711
Trade and other receivables	10	39,565	15,805
Other		6,432	-
Total current assets		3,637,379	467,516
Non-current assets			
Property, plant and equipment	11	83,280	78,919
Total non-current assets		83,280	78,919
Total assets		3,720,659	546,435
LIABILITIES			
Current liabilities			
Trade and other payables	12	95,885	239,023
Borrowings		6,978	-
Other payables	13	92,197	26,761
Total current liabilities		195,060	265,784
Non-current liabilities			
Provisions	14	11,738	6,687
Total non-current liabilities		11,738	6,687
Total liabilities		206,798	272,471
Net assets		3,513,861	273,964
EQUITY			
Contributed equity	15	7,418,863	1,586,139
Reserves	16	2,247,531	-
Retained earnings (accumulated losses)		(6,152,533)	(1,312,175)
Capital and reserves attributable to owners of Recce Ltd		3,513,861	273,964
Total equity		3,513,861	273,964

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from ATO		135,849	113,484
Payments to suppliers and employees		(1,758,604)	(409,740)
Interest received		24,186	370
Interest and other costs of finance paid		(9,039)	(251)
Net cash outflow from operating activities	18	(1,607,608)	(296,137)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(78,061)	(35,249)
Proceeds from sale of property, plant and equipment		59,700	-
Net cash outflow from investing activities		(18,361)	(35,249)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		126,390	-
Repayment of borrowings		(119,412)	-
Proceeds from issue of shares – net of costs		4,758,662	689,000
Net cash inflow from financing activities		4,765,640	689,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,139,671	357,614
Cash and cash equivalents at beginning of year		451,711	94,097
Cash and cash equivalents at end of year	9	3,591,382	451,711

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016**

	Contributed Equity	Accumulated Losses	Share-Based Payments Reserve	Performance Share Reserve	Total Equity
	\$	\$	\$	\$	\$
At 1 July 2014	805,820	(862,009)	-	-	(56,189)
Total comprehensive income for the year					-
Loss for the year	-	(450,166)	-	-	(450,166)
Transactions with owners in their capacity as owners					-
Contributions of equity, net of transaction costs	780,319	-	-	-	780,319
At 30 June 2015	1,586,139	(1,312,175)	-	-	273,964
At 1 July 2015	1,586,139	(1,312,175)	-	-	273,964
Total comprehensive income for the year					
Loss for the year	-	(4,840,358)	-	-	(4,840,358)
Transactions with owners in their capacity as owners					
Issue of Performance Shares	-	-	-	2,958,996	2,958,996
Conversion of Performance Shares	718,369	-	-	(718,369)	-
Shares to be issued to Non-Executive Directors	-	-	6,904	-	6,904
Shares allotted per resolution	355,693	-	-	-	355,693
Shares allotted as per IPO (net of transaction costs)	4,758,662	-	-	-	4,758,662
At 30 June 2016	7,418,863	(6,152,533)	6,904	2,240,627	3,513,861

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Note

1. Corporate Information

The consolidated financial statements of Recce Ltd for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the Directors on 23 August 2016 of Recce Ltd. Recce Ltd is a for-profit entity for the purpose of preparing these financial statements.

The financial statements are presented in Australian dollars.

Recce Ltd is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The address of the registered office and principal place of business is Suite 10, 3 Brodie Hall Drive, Bentley WA 6102.

2. Statement of Significant Accounting Policies

a. Basis of Preparation

The 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 also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have been prepared in accordance with the significant accounting policies disclosed below which the Directors have determined are appropriate to meet the needs of members. Such accounting policies are consistent with the previous period 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.

b. Principles of Consolidation

(i) Subsidiaries

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 Group companies 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. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

2. Statement of Significant Accounting Policies (Cont'd)

d. Foreign Currency Translation

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

e. Revenue Recognition

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

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.

Government Grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and credited to profit or loss on a straight line basis over the expected lives of the related assets.

f. Income Tax

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

2. Statement of Significant Accounting Policies (Cont'd)

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.

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

g. Impairment of Assets

At the end of each reporting period 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.

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

h. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

i. Fair Values

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

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

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

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

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

j. Trade and Other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

2. Statement of Significant Accounting Policies (Cont'd)

k. Property, Plant and Equipment

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

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

- Machinery	10 - 15 years
- Furniture, fittings and equipment	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
- Plant and equipment	5-20%
- Furniture, fittings and equipment	5-20%

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

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.

l. Research and Development

Research costs are expensed as incurred.

m. Trade and Other Payables

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

n. Borrowings

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

o. Other Liabilities

Other liabilities comprises non-current amounts due to related parties that do not bear interest and are repayable within 366 days of the end of the reporting period. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. **Statement of Significant Accounting Policies (Cont'd)**

p. **Employee Benefit Provisions**

Short-term employee benefit obligations

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

Other long-term employee benefit 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 period. 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 period using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government corporate bond rates at the end of the reporting period 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 period.

q. **Contributed Equity**

Ordinary shares are classified as equity.

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

r. **Share-Based Payments**

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").

s. **Earnings Per Share**

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of Recce Ltd, 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 per share

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings 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 FOR THE YEAR ENDED 30 JUNE 2016

2. Statement of Significant Accounting Policies (Cont'd)

t. GST

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

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

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

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

u. 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 (note 21). 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 period of the lease.

v. Derivatives and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 17. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

When a hedging instrument expires or is sold or is terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

2. Statement of Significant Accounting Policies (Cont'd)

W. Going Concern

Recce Ltd listed on the ASX on 15 January 2015, and at that time it had raised \$5 million to meet its projected commitments, with the ultimate aim of being granted IND status by the U.S. Food and Drug Administration, which was outlined in the prospectus. Subsequent to the issue of the prospectus, Recce Ltd has updated its cash flow forecast using more reliable and/or more accurate information, and based on the updated cash flow forecast Recce Ltd may not have sufficient funds to complete all work required to submit its application for IND status. In isolation this indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Accordingly, the Group may have to seek additional funding; if as presently projected, schedules are earlier than perhaps inferred in the prospectus, this re-financing may occur approximately May-June 2017. Based on the success of current progress in the Group, it is considered that the re-financing would be well-supported.

As required by AASB 101 Presentation of Financial Statements the directors are required to make an assessment as to whether the Group is able to continue as a going concern which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Directors have undertaken such an assessment and do believe that the Group has the ability to continue as a going concern. Accordingly, the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to amounts or classifications of liabilities that might be necessary should the Group not be able to continue as a going concern. In the event that the Group is unable to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial report.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

X. Accounting Standards Issued But Not Yet Effective

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after...)	Likely impact on initial application
AASB 9 <i>Financial Instruments</i> (December 2014)	AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	<p>AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:</p> <ol style="list-style-type: none"> a) Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows. b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c) Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments. d) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. e) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ul style="list-style-type: none"> • the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI) • the remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:</p> <ul style="list-style-type: none"> • classification and measurement of financial liabilities; and • derecognition requirements for financial assets and liabilities. 	1 January 2018	<i>The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity'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 2019.</i>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

X. Accounting Standards Issued But Not Yet Effective (Cont'd)

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after...)	Likely impact on initial application
AASB 9 <i>Financial Instruments</i> (December 2014) continued	(As above)	AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements. Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.		
AASB 1057 <i>Application of Australian Accounting Standards</i>	None	In May 2015, the AASB decided to revise Australian Accounting Standards that incorporate IFRSs to minimise Australian-specific wording even further. The AASB noted that IFRSs do not contain application paragraphs that identify the entities and financial reports to which the Standards (and Interpretations) apply. As a result, the AASB decided to move the application paragraphs previously contained in each Australian Accounting Standard (or Interpretation), unchanged, into a new Standard AASB 1057 <i>Application of Australian Accounting Standards</i> .	1 January 2018	<i>When this Standard is first adopted for the year ending 20 June 2019, there will be no impact on the financial statements.</i>
AASB 16 <i>Leases</i>	AASB 117 <i>Leases</i> Int. 4 <i>Determining whether an Arrangement contains a Lease</i> Int. 115 <i>Operating Leases – Lease Incentives</i> Int. 127 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	AASB 16: <ul style="list-style-type: none"> • replaces AASB 117 Leases and some lease-related interpretations • requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases • provides new guidance on the application of the definition of lease and on sale and lease back accounting • largely retains the existing lessor accounting requirements in AASB 117 • requires new and different disclosures about leases. 	1 January 2019	<i>The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity'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.</i>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

X. Accounting Standards Issued But Not Yet Effective (Cont'd)

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after...)	Likely impact on initial application
AASB 2014-1 <i>Amendments to Australian Accounting Standards (Part D: Consequential Amendments arising from AASB 14)</i>	None	Part D of AASB 2014-1 makes consequential amendments arising from the issuance of AASB 14.	1 January 2016	<i>When these amendments become effective for the first time for the year ending 30 June 2017, they will not have any impact on the entity.</i>
AASB 2014-4 <i>Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation</i>	None	<p>The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.</p> <p>The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (ie a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:</p> <ol style="list-style-type: none"> 1. The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or 2. When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. 	1 January 2016	<i>When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.</i>
AASB 2015-1 <i>Amendments to Australian Accounting Standards – Annual improvements to Australian Accounting Standards 2012-2014 Cycle</i>	None	<p>These amendments arise from the issuance of <i>Annual improvements to IFRSs 2012-2014 Cycle</i> in September 2014 by the IASB.</p> <p>Among other improvements, the amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> does not apply.</p> <p>The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of AASB 5.</p>	1 January 2016	<i>When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.</i>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

X. Accounting Standards Issued But Not Yet Effective (Cont'd)

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after...)	Likely impact on initial application
AASB 2015-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>	None	The standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB's Disclosure Initiative project. The amendments: <ul style="list-style-type: none"> clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information; clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated; add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position; clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order; and remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy. 	1 January 2016	<i>When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.</i>
AASB 2015-9 <i>Amendments to Australian Accounting Standards – Scope and Application Paragraphs</i>	None	AASB 2015-9 inserts scope paragraphs into AASB 8 <i>Operating Segments</i> and AASB 133 <i>Earnings per Share</i> in place of application paragraph text in AASB 1057. In July and August 2015, the AASB reissued AASB 8, AASB 133 and most of the Australian Accounting Standards that incorporate IFRSs to make editorial changes. The application paragraphs in the previous versions of AASB 8 and AASB 133 covered scope paragraphs that appear separately in the corresponding IFRS 8 and IAS 33. In moving those application paragraphs to AASB 1057 when AASB 8 and AASB 133 were reissued in August, the AASB inadvertently deleted the scope details from AASB 8 and AASB 133. This amending Standard puts the scope details into those Standards, and removes the related text from AASB 1057. There is no change to the requirements or the applicability of AASB 8 and AASB 133.	1 January 2016	<i>When this Standard is first adopted for the year ending 30 June 2017, there will be no impact on the financial statements.</i>
AASB 2016-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i>	None	AASB 2016-2 amends AASB 107 <i>Statement of Cash Flows</i> to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	<i>When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.</i>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

2. Statement of Significant Accounting Policies (Cont'd)

y. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the 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 consolidated entity 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 period but may impact profit or loss and equity. For details of share based payments made during the year, see Note 19.

Impairment of non-financial assets

The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity 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.

3. Segment Reporting

During the year the consolidated entity operated in one business segment, that being research and development of pharmaceutical drugs. It also operated in one geographic segment which was Australia.

4. Tax Expense

	2016 \$	2015 \$
Loss from continuing operations before income tax benefit	(4,840,358)	(450,166)
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 30% (2015: 30%)	(1,452,107)	(135,050)
Add:		
Non-allowable items		
- Share-based payments expense	996,478	27,396
- IPO expenses	57,184	-
- Other non-allowable items	97	-
- Overseas laboratory testing	40,153	-
Less:		
- Tax losses and deferred tax not recognised	358,195	107,654
Income tax attributable to entity	-	-

Deferred tax Assets (at 30%)

Net 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
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$	2015 \$
5. Revenue and Other Income		
(a) Revenue		
- Interest received – from other persons	44,102	370
Total revenue	44,102	370
(b) Other income		
- Research & Development Grant	132,918	113,484
- Sale of assets	3,600	-
Total other income	136,518	113,484
6. Loss for the Year		
Expenses		
<i>Finance costs:</i>		
- external	9,039	251
Total finance costs	9,039	251
<i>Other expenses:</i>		
- Consulting fees	103,455	-
- Computer maintenance & consumables	12,453	11,118
- Insurance costs	61,937	2,619
- Communication expenses	8,835	5,858
- Audit fees	32,403	2,040
- Legal expenses	22,029	-
- Printing & stationery expenses	5,720	1,355
- ASIC/ASX fees	18,914	5,243
- Other	38,317	15,729
	304,063	43,962
7. Earnings per Share		
Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Profit attributable to owners of Recce Ltd used to calculate basic earnings per share:		
Loss from continuing operations	(4,840,358)	(450,166)
	(4,840,358)	(450,166)
Diluted earnings per share		
Loss used to calculate basic earnings per share	(4,840,358)	(450,166)
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	56,224,590	33,309,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$	2015 \$
8. Auditor's Remuneration		
During the year, the following fees were paid or payable for services to BDO Audit (WA) Pty Ltd (BDO), its related practices (also referred to hereafter as BDO, network firms of BDO and non BDO firms:		
Audit services		
BDO for audit or review of the financial statements for the entity or any entity in the group	32,403	2,040
Non-Audit-related services		
BDO for non-audit-related services for the entity or any entity in the group:		
- Investigating Accountant's Report for Prospectus	10,200	-
	42,403	2,040
Taxation services		
Non BDO firms for non-audit taxation services for the entity or any entity in the group:		
- review of income tax return	1,850	1,630
	1,850	1,630
9. Cash and Cash Equivalents		
Cash at bank and in hand	3,591,382	451,711
	3,591,382	451,711
Cash at bank and in hand bear floating interest rates between 0% and 3.05% depending on the amount on deposit.		
10. Trade and Other Receivables		
Current		
Other receivables	39,565	15,805
	39,565	15,805

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$	2015 \$
11. Property, Plant and Equipment		
Plant & equipment		
- at cost	41,903	86,468
- accumulated depreciation	(10,948)	(49,175)
	30,955	37,293
Office furniture & equipment		
- at cost	19,339	19,220
- accumulated depreciation	(2,637)	(3,154)
	16,702	16,066
Computer equipment		
- at cost	16,078	17,372
- accumulated depreciation	(5,189)	(686)
	10,889	16,686
Office improvements		
- at capitalised cost	22,835	5,863
- accumulated depreciation	(390)	(147)
	22,445	5,716
Library		
- at cost	2,334	2,334
- accumulated depreciation	(757)	(362)
	1,577	1,972
Website development		
- at cost	2,797	2,797
- accumulated amortisation	(2,085)	(1,611)
	712	1,186
Total plant & equipment	83,280	78,919

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$	2015 \$
11. Property, Plant and Equipment (Cont'd)		
Reconciliations		
Reconciliations of the carrying amounts of each class of property, plant & equipment at the beginning and end of the current and previous financial year are set out below:		
Plant & equipment		
Carrying amount at beginning of financial year	37,293	44,706
Transfers	(278)	-
Additions	36,100	314
Disposals	(33,612)	-
Depreciation	(8,548)	(7,727)
Carrying amount at end of financial year	30,955	37,293
Office furniture & equipment		
Carrying amount at beginning of financial year	16,066	3,948
Transfer	239	-
Additions	11,561	12,916
Disposals	(9,973)	-
Depreciation	(1,191)	(798)
Carrying amount at end of financial year	16,702	16,066
Computer equipment		
Carrying amount at beginning of financial year	16,686	-
Transfers	39	-
Additions	12,486	17,372
Disposals	(12,514)	-
Depreciation	(5,808)	(686)
Carrying amount at end of financial year	10,889	16,686
Office improvements		
Carrying amount at beginning of financial year	5,716	3,340
Additions	16,971	2,484
Depreciation	(242)	(107)
Carrying amount at end of financial year	22,445	5,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$	2015 \$
11. Property, Plant and Equipment (Cont'd)		
Library		
Carrying amount at beginning of financial year	1,972	-
Additions	-	2,163
Depreciation	(395)	(191)
Carrying amount at end of financial year	1,577	1,972
Website development		
Carrying amount at beginning of financial year	1,186	1,977
Depreciation	(474)	(791)
Carrying amount at end of financial year	712	1,186
12. Trade and Other Payables		
Current		
Unsecured liabilities		
Trade payables	18,768	22,142
Other payables	77,117	216,881
	95,885	239,023
13. Other Liabilities		
Current		
Unsecured liabilities		
Annual leave	58,371	17,841
Personal leave	33,826	8,920
	92,197	26,761

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

16. Reserves

Performance Share Reserve

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

Share-based Payment 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.

17. 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 programme 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 market forecasts for interest rate and foreign exchange prices. Liquidity risk is monitored through the development of future cash flow forecasts.

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

The main risks arising for the Group are foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The carrying values of the Group's financial instruments are as follows:

	2016 \$	2015 \$
Financial Assets		
Cash and cash equivalents	3,591,382	451,711
Trade and other receivables	39,565	15,805
	3,630,947	467,516
Financial Liabilities		
Trade and other payables	95,885	239,023
Borrowings	6,978	-
	102,863	239,023
Net exposure	3,528,084	228,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

17. Financial Risk Management (Cont'd)

(a) Derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as "held for trading" accounting purposes below. The Group has the following derivative financial instruments:

	2016 \$	2015 \$
Current Assets		
Forward foreign exchange contracts – cash flow hedges	-	-
Total current derivative financial instrument assets	-	-
Current Liabilities		
Forward foreign exchange contracts – held for trading	-	-
Total current derivative financial instrument liabilities	-	-

On 30 June 2016 the Company entered into a Forward Foreign Currency contract with Western Union Business Solutions. The Company bought US\$1 million at an average US\$/A\$ exchange rate of 0.7329. This contract matures on 31 January 2017.

(b) 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 entity's functional currency. Over the next 12 months the Group will enter into contracts with Contract 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\$1.1 million in expenditure.

(ii) Interest rate risk

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

	30 June 16		30 June 16	
	Weighted average interest rate	Balance \$	Weighted average interest rate	Balance \$
Cash and cash equivalents	2.61%	3,591,382	1.90%	451,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

17. Financial Risk Management (Cont'd)

Sensitivity

Within this analysis, consideration is given to potential renewals of existing positions and the mix of fixed and variable interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. The 1% increase and 1% decrease in rates is based on reasonably expected possible changes over a financial year, using the observed range of historical rates for the preceding five year period.

At 30 June 2016, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax losses would have been affected as follows:

	Post tax profit higher/(lower)		Other comprehensive income higher/(lower)	
	2016 \$	2015 \$	2016 \$	2015 \$
Judgements of reasonably possible movements:				
+1.0% (100 basis points)	35,870	(4,065)	-	-
-1.0% (100 basis points)	(35,870)	(4,065)	-	-

The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

(c) 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 comprise 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 these instruments.

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

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

- Cash held with BankWest Bank

(i) Cash

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

17. Financial Risk Management (Cont'd)

Cash at bank and short-term bank deposits:

	2016 \$	2015 \$
Standard & Poors rating		
AA-	3,591,832	451,711

(d) 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 terms of creditor payments.

The table below reflects the respective undiscounted cash flows for financial liabilities existing at 30 June 2016.

Contractual maturities of financial liabilities	<6 months	>6-12 months	>12 months	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
30 June 16					
Trade and payables	95,885	-	-	95,885	95,885
Borrowings	6,978	-	-	6,978	6,978
	102,863	-	-	102,863	102,863
30 June 15					
Trade and other payables	239,023	-	-	239,023	239,023
	239,023	-	-	239,023	239,023

(e) 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 (ie as prices), or indirectly (ie derived from prices); or
- (iii) Level 3 – a valuation technique using inputs that are not based on observable market data (unobservable inputs).

At 30 June 2016 and 30 June 2015 the Group did not have financial liabilities measured and recognised at fair value. Due to their short term nature, the carrying amount of the current receivables and payables is assumed to approximate their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

18. Cash Flow Information

	2016 \$	2015 \$
Reconciliation of profit after income tax to net cash flow from operating activities		
Loss for the year	(4,840,358)	(450,166)
Depreciation and amortisation	16,658	10,300
Non-cash share-based payments expense	3,321,593	91,319
Net (gain)/loss on sale of property, plant and equipment	(3,600)	-
Other	942	-
Change in operating assets		
- (increase)/decrease in other assets	(6,432)	-
- (increase)/decrease in receivables	(23,760)	(15,800)
- increase/(decrease) in creditors and accruals	(143,138)	42,114
- increase/(decrease) in provisions	70,487	26,096
Net cash outflow from operating activities	(1,607,608)	(296,137)

19. Share Based Payments

Share-based payments expense recognised during the financial year

Shares issued under Performance Share Scheme	2,958,996	-
Shares issued to executive directors	355,693	91,319
Shares not issued to non-executive directors during the year ¹	6,904	-
	3,321,593	91,319

¹ The two new non-executive directors are entitled to receive \$30,000 of shares in the Company for each year of service. Accordingly a pro-rata accrual has been expensed for this entitlement.

Issue of Ordinary Shares

On 1 July 2015 the Company issued 1,778,466 fully paid ordinary shares to 2 of its directors for services provided. These shares were then split on the ratio 3 for 2. A summary of this event is as follows:

Director	Shares issued 1 July 2015	Additional shares from Split	Total shares from this issue
J Graham	889,233	444,616	1,333,849
M Dilizia	889,233	444,616	1,333,849
	1,778,466	889,232	2,667,698

The value assigned to this transaction was based on the price of shares issued to "seed" investors who invested in the Company around the time that these shares were issued i.e. \$0.20 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

19. Share Based Payments (cont'd)

Issue of Performance Shares

On 19 August 2015 the Company issued the following Performance Shares:

- 8,754,423 Class A Performance Shares; and
- 8,754,423 Class B Performance Shares

On 20 August 2015 the Company the following Performance Shares:

- 8,754,423 Class C Performance Shares; and
- 8,754,423 Class D Performance Shares

A summary of these transactions are as follows:

	Performance Shares			
	Class A	Class B	Class C	Class D
Directors				
G Melrose	6,075,000	6,075,000	6,075,000	6,075,000
J Graham	745,962	745,962	745,962	745,962
M Dilizia	577,212	577,212	577,212	577,212
I Brown	56,250	56,250	56,250	56,250
D Zhang	56,250	56,250	56,250	56,250
Key Management				
P Williams	56,250	56,250	56,250	56,250
	7,566,924	7,566,924	7,566,924	7,566,924
Other employees				
	1,187,499	1,187,499	1,187,499	1,187,499
	8,754,423	8,754,423	8,754,423	8,754,423
Value ¹ per performance share	\$0.173	Nil	\$0.111	\$0.054

¹ The Trinomial option pricing model has been used to calculate the value of Class A, Class C and Class D performance shares. Class B performance shares have a non-market vesting condition i.e. the Company is awarded the US Food and Drug Administration's Investigational New Drug (IND) status on or before 19 August 2020. For details of the vesting conditions see the Remuneration Report. The multiplicity of the inter-dependent variables required for the achievement of IND status means there are no statistical data to support the probability of Class B performance shares vesting. Accordingly a value of zero has been assigned to these shares. There were also an additional 4,749,996 performance shares issued to employees apportioned across the performance share classes. The following assumptions were used:

	Class A	Class C	Class D
Underlying share price	\$0.20	\$0.20	\$0.20
20-day VWAP barrier	\$0.30	\$0.60	\$1.20
Term	5 Years	5 Years	5 Years
Risk-free rate	2.18%	2.18%	2.18%
Number of Performance Shares	8,754,423	8,754,423	8,754,423

The full terms and conditions of the Performance Shares are disclosed in section D of the audited Remuneration Report in the Directors' Report.

The above transactions relate to the share-based payment expense as disclosed in the Statement of Profit or Loss and Other Comprehensive Income. 2016 \$3,321,593 (2015: \$91,319).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

20. Related Party Transactions

Parent entity

The ultimate parent entity within the Group is Recce Ltd.

Subsidiaries

Interests in subsidiaries are disclosed in 23.

Key management personnel compensation

	2016 \$	2015 \$
Short-term employee benefits	543,927	215,970
Post-employment benefits	45,002	20,517
Share-based payments	2,920,218	90,000
	3,509,147	326,487

Detailed remuneration disclosures are provided in the Remuneration Report on pages 6 to 14.

The following transactions occurred with related parties:

Superannuation contributions

Contributions to superannuation funds on behalf of employees	45,002	20,517
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Note: There were no other related party transactions

21. Commitments

(a) Lease Commitments

Non-cancellable operating leases - future minimum lease payments

Payable:

Within one year	105,505	59,660
Later than one year but not later than 5 years	42,108	66,906
Later than 5 years	-	-
	147,613	126,566

The Group leases various premises under non-cancellable operating leases expiring between 1 and 2 years. All leases have annual CPI escalation clauses. Lease terms usually run for 2 years with a 2 year renewal option. Lease conditions do not impose any restrictions on the ability of Recce Ltd and its subsidiaries from borrowing further funds or paying dividends.

(b) Capital Expenditure Commitments

The Group issued a purchase order to update the HPLC

	11,000	-
Payable – within one year	11,000	-
	11,000	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

22. Parent Entity Information

The following information relates to the parent entity, Recce Ltd, as at 30 June 2016. The information presented hereto has been prepared using accounting policies consistent with those presented in Note. 1.

Parent entity	2016 \$	2015 \$
Current assets	3,637,379	467,516
Non-current assets	83,280	78,919
Total assets	3,720,659	546,435
Current liabilities	195,060	265,784
Non-current liabilities	11,738	6,687
Total liabilities	206,798	272,471
Contributed equity	7,418,863	1,586,139
Reserves	2,247,531	-
Accumulated losses	(6,152,533)	(1,312,175)
Net Assets	3,513,861	273,964
Loss for the year	(4,840,358)	(450,166)
Total comprehensive loss for the year	(4,840,358)	(450,166)

The parent entity has no contingent liabilities as at 30 June 2016.

23. Interests in Subsidiaries

Set out below are details of the subsidiaries held directly by the Group.

Name of the Subsidiary	Country of incorporation of and principle place of business	Principal Activity	Group proportion of ownership interests	
			30 June 2016	30 June 2015
Recce (USA) LLP	United States	Research and Development	100%	-
Recce (UK) Limited	United Kingdom	Research and Development	100%	-

24. Contingent Liabilities and Contingent Assets

The Group is not aware of any contingent liabilities or contingent assets as at 30 June 2016.

25. Subsequent Events

On 13 July 2016 the Company announced that anti-viral activity was evident during in-vitro tests of RECCE® 327 against influenza.

On 15 July 2016 the Company issued 3,543,000 ordinary shares to Dr Graham Melrose. These shares were issued on the conversion of 3,453,000 Class A Performance Shares.

On 15 August 2016 the Company announced that test results showed that up to four times the normal dose of RECCE® 327 could be tolerated by mice without any stress from toxicity.

No other matter or circumstance has arisen since 30 June 2016, which has significantly affected, or may significantly affect the state of affairs of the Group in subsequent financial years.

DIRECTORS' DECLARATION

Recce Ltd

(ABN 73 124 849 065)

The Directors of the Company declare that:

1. The financial statements comprising the statements of profit or loss and other comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows and accompanying notes, as set out on pages 28 to 57, are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standards and the *Corporations Regulations 2001*; and other mandatory reporting requirements; and
 - b. give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the Company;
2. The Executive Chairman and Chief Financial Officer have each declared that:
 - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. The financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. The financial statements and notes for the financial year give a true and fair view;
3. In the Director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Graham Melrose
Executive Chairman

Dated: 25 August 2016

INDEPENDENT AUDITOR'S REPORT

To the members of Recce Ltd

Report on the Financial Report

We have audited the accompanying financial report of Recce Ltd, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which



has been given to the directors of Recce Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Recce Ltd is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2(w) in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding. This condition, along with other matters as set out in Note 2(w), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 14 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Recce Ltd for the year ended 30 June 2016 complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink that reads 'BDO' above 'J Prue'.

Jarrad Prue
Director

Perth, 25 August 2016