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**ASX Announcement**

# Recce secures up to A$6.05 million investment agreement with US institutional investor

**Key points:**

- Investment of up to a total A$6.05 million from The Australian Special Opportunity Fund LP managed by The Lind Partners
- Flexible financing agreement to support RECCE® 327 synthetic antibiotic trials
- Recce will receive an initial A$300,000, by way of A$250,000 for the issue of convertible securities and A$50,000 as the first share tranche payment

**SYDNEY Australia 16 June 2017:** Recce Limited (ASX: RCE), a pre-clinical-stage pharmaceutical company engaged in the development of a new class of synthetic antibiotics, today announced it had entered an agreement for a flexible funding commitment of up to A$6.05 million with The Australian Special Opportunity Fund LP (ASOF), providing capital to support Recce's synthetic antibiotic through its Investigative New Drug (IND) Application to the Food and Drug Administration in the USA and Phase I clinical trials.

ASOF, managed by New York-based institutional asset manager The Lind Partners (together "Lind"), focuses its investments on promising ASX-listed companies. The Lind team has made more than 50 ASX investments since 2009 with many in the biotech sector. The share purchase and convertible security agreement gives Recce access, subject to certain conditions, to capital through a flexible convertible instrument and the ability to secure additional funding in monthly stages. It allows Recce to issue shares at prices linked to the share price prevailing at the time, minimising dilution for existing shareholders while supporting anticipated financing needs to strengthen its pursuit of developmental milestones.

During the 24 month term, ASOF has committed to invest up to a total of A$6,050,000 in Recce's equity. Lind will make an initial upfront investment of A$300,000 by way of a A$250,000 24-month interest-free unsecured convertible security (with face value of A$300,000) and a

$50,000 equity investment to be satisfied through the issue of ordinary shares. Subsequent investments will, subject to certain conditions, be made in monthly equity tranches of A$50,000 that can be increased up to A$250,000 by mutual consent between Recce and ASOF.

The investment gives Recce access to additional funding to support the submission of its IND Application for its RECCE® 327 synthetic antibiotic to the US Food & Drug Administration (FDA) in coming months and planned start of a Phase I clinical study as well as working capital to support related technology opportunities.

Recce retains the right to pause the monthly tranche schedule for up to 3 months in any 12 month period, provided at least 3 tranches have been advanced by ASOF. Recce has the right to terminate the agreement at any time if the issue price of shares for any tranche will be less than 15 cents. Lind has also agreed to certain, strict limitations on exiting its investment. A summary of the rationale for securing the funding is set out in the Appendix below.

Recce Executive Chairman Dr Graham Melrose said: “These funds provide our business with some additional certainty over the next 24 months as we focus on delivering on our clinical development milestones for our lead candidate antibiotic as a potential solution to the problem of drug resistant antibiotics. The investment structure secured minimises dilution for existing shareholders while allowing the business to maintain a routine cash flow”.

The Lind Partners Managing Director Phillip Valliere said, “We look forward to working with Recce as management continues to deliver on its milestones. We acknowledge the significant potential of their important work to develop urgently needed new options to treat antibiotic resistant infections, and are happy to be able to provide the business with capital that will help achieve its goals.”

## Appendix

**Key Points to the Funding Agreement**

**1. Certainty of access to funding**. The funding agreement provides Recce with certainty of access to funding over the next 24 months as it progresses towards human clinical studies. The investment will be made as follows:

A. Minimum A$50,000 per month in share purchases for up to 24 months.
B. At Recce's sole option, tranche amounts can be reduced to A$25,000 per month, or tranches can be increased up to A$250,000 by mutual consent.

The regularity and size of the tranches provide certainty of funding to Recce, subject to certain conditions for subsequent tranches of funding (including Recce's capacity for the purposes of Listing Rules 7.1 and 7.1A to issue future tranches of equity securities or otherwise having obtained requisite shareholder approval), and allow management to focus on delivering its clinical and corporate development milestones.
ASOF also has the right to pause the monthly tranche schedule for up to 60 days where the volume weighted average price of Recce's shares is equal to or less than the base price of 10 cents for any 2 consecutive trading days. ASOF can also elect to terminate the agreement if during any continuous period of 180 days the VWAP per Recce share has been equal to or less than the base price of 10 cents.

**2. Lock Up:** Convertible security with face value of A$300,000 is 'locked up' for 90 days - the convertible security cannot be converted into shares for 90 days following the date of execution of the agreement. The conversion price is the lesser of 90% of the average 5 consecutive daily VWAP per share during the 20 consecutive trading days prior to the conversion notice date selected by ASOF, and $0.25935, being the amount equal to 130% of the average of each of the 20 daily VWAPs during the 20 trading days before execution. Recce can elect to buy-back the convertible security at any time. If Recce buys back the convertible security after the 90 day lock up period, it must pay a 5% premium to the amount outstanding in respect of the convertible security at that time.

**3. Floor-price Protection.** If the purchase price is less than 15 cents/share Recce may elect to not issue that month's shares provided that Recce then repays the prepaid tranche amount that ASOF paid for that month's shares, with a 5% premium. ASOF however, may elect to receive the tranche shares at the floor price and/or use collateral shares to satisfy the issue of shares under the tranche.

**4. Minimising shareholder dilution**. Recce has secured funding and avoided dilution at current levels of its share price while retaining significant flexibility. ASOF will acquire ordinary shares in Recce in its monthly equity investments at a purchase price at the election of ASOF, equal to 90 per cent of the average of five consecutive daily volume-weighted average prices of Recce's shares during the 20 trading days before the issue of the shares (**Purchase Price A**), or $0.25935, being the amount equal to 130 per cent of the average daily volume weighted average price for the 20 trading days prior to the date of the execution of the agreement (**Purchase Price B**), provided that ASOF may not elect Purchase Price B for more than 2 tranche issuances during the term of the agreement.

**5. Additional safeguards for Recce**. Recce has a number of additional safeguards against dilution. These include the fact that ASOF will not hold more than 19.99 per cent of Recce's shares at any one time. No tranche will exceed 0.5 per cent of Recce's market capitalisation (based on number of shares at execution multiplied by VWAP prior to the relevant tranche closing), except where the tranche has been increased by mutual agreement or as agreed between the two parties. The terms of the agreement also allow Recce to carry out issues under the Recce director and executive performance rights plan and additional private placements of equity, rights issues, and shareholder purchase plans at a fixed price.

The agreement contains provisions requiring approval of shareholders for subsequent tranche issues if required under Listing Rules 7.1 and 7.1A. Shareholder approval is not required for the funding to proceed and issue of shares, convertible securities and grant of options on the first closing.

ASOF is a passive investor with no Board participation rights. Recce has the right to pause the monthly payment schedule (provided at least 3 tranches have been advanced) and Recce can cancel the need for additional tranches if there is no longer a need. If Recce cancels the agreement before 3 tranche issuances it is required to pay ASOF a cancellation fee of $50,000.

Recce can terminate the agreement at no cost at any time after three tranches have been funded or at no cost at any time if the purchase price of shares to be issued under a tranche is less than the agreed floor price of 15 cents.

ASOF has agreed to certain limitations on the sale of its investment (including that on any trading day it may only sell a maximum of 20% of the number of most recently issued tranche shares or 20% of the trading volume of shares traded, whichever is the greater), a safeguard not normally available when undertaking a placement among several different investors.

**6. Interest-free investment and focus on capital appreciation**. ASOF's return on its investment depends on Recce's share price appreciation and the convertible security (a face value of A$300,000 for a funded amount of A$250,000) accrues no interest except in the case of an event of default by Recce.

ASOF will receive a fee of $35,000 in shares at the time of the advance of the convertible security/first tranche of ordinary shares. ASOF or its nominee will also receive 476,000 collateral shares as consideration for entry into the agreement and as collateral which shares can be used to satisfy a tranche or conversion issue, returning capital to Recce according to either **Purchase Price A** or **Purchase Price B** (where the collateral shares are used to satisfy a tranche issue) or reducing the amount outstanding under the convertible security (where the collateral shares are used to satisfy a conversion notice). During the term ASOF may sell or encumber the collateral shares at its discretion. However, at the end of the term ASOF is required to pay Recce a collateralisation pricing amount for the unused number of collateral shares. The collateralisation pricing amount is the lower of 90% of the average of five consecutive daily VWAPs per share selected by ASOF during the 20 day period prior to date when payment is due and $0.2593. ASOF or its nominee will also receive on initial funding 641,000 unlisted options with an exercise price of $0.25935 per share, (being an amount equal to 130% of average daily VWAPs during 20 trading days before execution) and a 36 month expiry from the date of grant. Options (equal to 20% of the number of tranche shares) are also issuable to ASOF or its nominee on each share tranche issue at an exercise price of 130% of the relevant tranche purchase price and with a 36 month expiry from the date of grant.

## About Recce Ltd

Recce Ltd (ASX: RCE) is a world-leader in synthetic-polymer compounds, particularly against all bacteria, and viruses. The RECCE® polymers have been synthesized by an extremely economic method. RECCE® polymers have shown in laboratory tests that they have continued activity against bacteria, including superbugs, even after repeated use. Recce is positioned to achieve milestones in both pre-clinical trials for FDA purposes, and the development of the manufacture of RECCE® 327. Recce has granted patents in Australia, United States, Europe, Japan and China – giving it legal monopolies, and potential financial returns, from manufacture and distribution of its products in about 80% of the world's pharmaceutical markets for antibiotics.

**About The Lind Partners**

The Lind Partners is a New York-based institutional fund manager focused on small- and mid-cap companies listed in Australia, Canada and the UK across biotech, technology, oil & gas and mining. Lind employs a multi-faceted investment strategy: direct investments of new capital ($1 to $10 million each); participation in equity placements; IPO/pre-IPO equity; and select on-market trades. Since 2009, the Lind team has completed over 80 direct investments, totaling over $600 million in total value, and has earned a reputation as a creative, flexible and supportive capital partner to investee companies.

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**Investor Relations**
Peter Williams
CFO & Company Secretary
Recce Ltd
Tel: (08) 9253 9800

**Media (Australia)**
Andrew Geddes
CityPR
Tel: (02) 9267 4511

**Media (International)**
Sue Charles/Gemma Harris
Instinctif Partners
Tel: +44 (0)20 7866 7860
E: recce@instinctif.com