2017 ANNUAL REPORT

Recce

ABN 73 124 849 065

2017
HIGHLIGHTS

- Dose safety indicated in multiple animal models
- Efficacy in animal models for superbug strains of *E. coli* and *S. Aureus*
- Multiple tests of mutagenicity (cancer) are clear
- Confirmation of production at volumes for clinical program
- Efficacy established in seven of the top 12 superbug threats identified by WHO
- Secured up to A$6.05 million investment from US investor
- Additional global patent advances

CONTENTS

“Drug-resistant bacteria kill about 700,000 people each year, and that number could rise to 10 million by 2050 without a new arsenal of drugs”

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The Review on Antimicrobial Resistance
Chaired by Jim O’Neill

WHO WE ARE

Recce is a drug discovery and development business commercialising a new class of synthetic antibiotics to address the global health challenge of antibiotic resistant superbugs.

Overuse of antibiotics in medicine and farming has led to the rise of antibiotic-resistant bacteria worldwide.

The rise of so-called superbugs has become a global health issue and one of the greatest threats to human health according to the World Health Organisation (WHO).

Recce is developing a portfolio of new therapies that have the potential to help address the worldwide threat to human health posed by drug resistant bacteria. Recce's current lead candidate is a synthetic antibiotic that is being developed to treat bacterial sepsis, gastritis and diarrhoea.

Recce is currently completing an Investigational New Drug application (IND) application for submission to the US Food & Drug Administration (FDA) to gain approval to test its therapy in humans.

With a low cost out-sourced business model and a strong patent portfolio, the business is well positioned, with management committed to delivering long-term value to shareholders.

"With your support we are focused on creating a commercially successful enterprise to help address the global rise of antibiotic resistant superbugs."

Executive Chairman, Dr Graham Melrose

MESSAGE FROM THE CHAIRMAN

Building the foundations for long term growth

During the 2017 financial year, Recce Limited continued building the solid foundations for growth and moving towards becoming a significant international antibiotics business.

Our pre-clinical program continued to make excellent progress as we invested considerable resources in the advance of our Investigative New Drug (IND) application for submission to the US Food & Drug Administration (FDA).

Operational update

Key operational achievements included the establishment of our first automated manufacturing facility in Sydney to supply our early clinical trials as well as recruiting a number of key staff to manage and support our production.

The upscaling of our manufacturing capabilities was a key milestone for the period as it broadened our production capacity whilst bringing our overall Quality Management System (QMS) to a higher standard according to the US Food and Drug Administration's (FDA) good laboratory practice (glp) guidelines.

During the reporting period we welcomed a number of highly qualified new employees who together have been crucial to the timely establishment of our new manufacturing facility in Sydney.

As we grow we expect to make a number of senior management appointments at the appropriate time as our technology advances through the approval process and we expand our operations in to key geographic markets.

With your support, we are focused on creating a commercially successful business and realising the full potential of our unique Australian technology.

The danger and effective management of the challenges posed by antibiotic resistance are very real and growing daily. The annual cost to the Australian and global economy is growing and impacts all of us in some way.

Recce believes we have a unique opportunity to help medical professionals worldwide and to materially grow our business in the process.

Financial management

At the same time our focus is on tightly managing our cash outflows while directing our precious resources towards the rapid development of our lead candidate.

Recce is committed to delivering an effective low cost treatment demanded by our markets.

The team in Sydney has made excellent progress towards developing our new manufacturing facility and preparing the business for the next critical stage of development - the start of human clinical trials.

A new approach to antibiotics

For the past decade, many big pharmaceutical companies have ignored investment in new antibiotics. Most of this is due to the propensity of natural antibiotics to soon develop resistant superbugs soon after their market introduction.

Alternatively, Recce believes it can be part of the solution. Being synthetic means our lead candidate is not prone to resistance and potentially less expensive to make. Our long term vision is to deliver to the market cost-effective, long-term solutions for the current threat posed by multiple drug resistant superbugs.

The year ahead

2018 will be a pivotal year for our business as we aim to start a series of first human clinical trials of our lead compound in patients, beginning with Phase 1 (safety) before progressing to Phase 2 (efficacy) for the treatment of sepsis derived from resistant and/or non-resistant bacteria in the blood.

At the same time we expect to make submissions to begin human studies for our lead candidate to treat antibiotic resistant strains of *H.Pylori* and *E. coli.*

> “Thank you to our shareholders who have supported Recce and continue to show their strong belief in the future of the Company.”

Your Board of Directors remains focused on managing this critical phase and conserving our cash resources and have accordingly not replaced a number of board members who resigned during the reporting period. Our focus is managing and minimising the risks and costs.

We are proud of the way our small team have responded to the challenges during the reporting period and I believe we have the right people in place to drive the Company forward and rise to the many challenges we will encounter as we grow.

On behalf of the Board, I would like to sincerely thank our shareholders who continue to support the Company and our vision.

The solid foundations for long term growth are being built and we look forward to providing you with more positive updates as we progress towards realising the promise our unique Australian technology holds and the potential to help improve the lives of millions of people and reduce the cost burden of antibiotic resistant superbugs.

Yours sincerely,

Dr Graham Melrose
Executive Chairman / Recce Ltd

COMPANY PROFILE

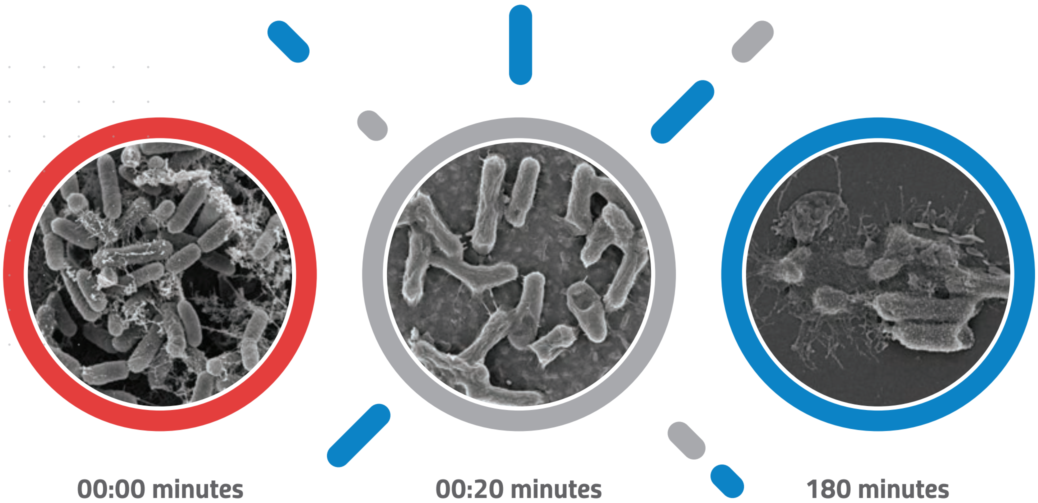
Our lead compound RECCE® 327 in action

These images show the mode of action of our lead compound. They were taken at the University of Western Australia using a high-definition electron microscope. Our thanks to Dr Peta Clode and Lyn Kirilak of the Centre for Microscopy, Characterisation and Analysis at UWA for their time and efforts.

A broad spectrum antibiotic candidate

Recce's lead drug candidate, RECCE® 327 has shown promising results to date.

Data from pre-clinical studies indicate the compound is effective in treating a wide range of disease-causing bacteria, and the superbugs of these bacteria.



00:00 minutes

The first image shows the drug resistant *E. coli* bacteria before the application of RECCE® 327, the *E. coli* bacteria cells are healthy, smooth and intact.

00:20 minutes

After application of RECCE® 327, the *E. coli* bacteria cell membrane begins to weaken and is disrupted.

180 minutes

E. coli bacteria cells (10e6 cfu/ml) having their outer membrane weakened – and finally collapsing from treatment with RECCE® 327 (1000 ppm).

Efficacy

- Performs as a broad spectrum antibiotic
- Acts against bacteria in both normal and mutated superbug forms
- Multiple tests demonstrate efficacy against Gr+ve *S. aureus* (Staph) including superbug forms
- Multiple tests demonstrate efficacy against Gr-ve *E. coli* including superbug forms
- Rate and MIC/MKC data demonstrate high potency and broad spectrum activity against range of bacteria
- Contains a patented polymeric structure, intentionally designed to overcome the traditional challenges of bacterial mutation/resistance (superbugs)
- *In-vivo* (mice) study against Influenza virus

Safety

- Multiple studies of toxicity in small and large animals
- Multiple tests of mutagenicity (cancer) are clear
- Over 30 studies to date indicate the safety of RECCE® 327.
- Is suited to administration against sepsis by intra-venous drip
- Indicates a wide and safe therapeutic dosing window

COMPANY PROFILE cont.

Strong patent portfolio provides a solid foundation for growth

Recce's patent portfolio has continued to strengthen with the submission of patent family's 2 and 3 in all Patent Cooperation Treaty (PCT) countries.

Recce's first family of patents protects its unique method of manufacture, antibacterial application and some modes of delivery as a synthetic polymeric technology for human use. This monopoly is exclusive to Recce until at least 2028.

Provisional patents were lodged and advanced to patent pending statuses covering new modes of delivery and uses of the synthetic technology including potential antiviral applications, extend to at least 2036.

Our aim is to become a global leader in the supply of new antibiotics that can help address the worldwide crisis of drug resistant antibiotics.

Patent Family 1 – Granted

protecting Recce's unique and highly economical manufacturing process

Filed	Status	Expiry
Australia	Granted	2028
USA	Granted	2029
Europe	Granted	2028
Germany	Granted	2028
Spain	Granted	2028
France	Granted	2029
United Kingdom	Granted	2028
Italy	Granted	2028
Sweden	Granted	2028
Japan	Granted	2028
China	Granted	2028

Patent Family 2 – Provisional

protecting Recce's drug delivery opportunities

Filed	Status	Expiry
All PCT Countries	*Pending*	2034

Patent Family 3 – Provisional

protecting Recce's anti-viral and anti-cancer applications

Filed	Status	Expiry
All PCT Countries	*Pending*	2034

Trade Marks – Approved and Registered

protecting RECCE® for use on antibiotic and pharmaceutical products and services

Filed	Status	Expiry
Australia	Registered	2026
USA	Registered	2026
Europe	Registered	2026
Japan	Registered	2026
China	Registered	2026

COMPANY PROFILE cont.

Growth also supported by legislative and financial initiatives

Supportive US legislation

In the US, the Generating Antibiotic Incentives Now (GAIN) Act was passed to incentivize the development of new antibiotics in response to the growing threat of antibiotic resistance and a lack of antibiotic products in drug manufacturers' pipelines. The legislation gives an extra five years patent exclusivity to new antibiotics that treat serious or life-threatening illnesses without generic drug competition. A further five years market exclusivity is also available for molecules that the FDA defines as a 'New Chemical Entity' (NCE). Additionally, the FDA provides a framework to award 'Expedited Review Status'. Recce believes it will be eligible to benefit from these additional advantages.

Non-dilutive funding grants

Two key programs, the US Biomedical Advanced Research & Development Agency (BARDA) Broad Spectrum Antimicrobials program, and the European Innovative Medicines Initiative (IMI) New Drugs For Bad Bugs (ND4BB) program, provide direct financial support to nearly 20 percent of all antibiotics currently under development globally.

In 2016 a new initiative called CARB-X, was launched as one of the world's largest public-private partnerships focused on preclinical discovery and development of new antimicrobial products. CARB-X will give US$44 million in its first year and up to $350 million in the next five years in grants to small companies developing new antibiotics and diagnostics. CARB-X funds come from the US government and a public-private initiative in the UK. The goal is to get at least two new drugs into human trials in the next five years.

The World Health Organisation (WHO) is working to urgently raise awareness and action on antibiotic resistant bacteria

To help governments, researchers and industry focus their resources on antibiotic resistance, the WHO has published a priority list of 12 antibiotic-resistant bacteria.

Priority 1: CRITICAL	RECCE® 327
▪ Pseudomonas aeruginosa, carbapenem-resistant	✔ [1]
▪ Enterobacteriaceae, carbapenem-resistant, ESBL-producing	✔ [2]
▪ Acinetobacter baumannii, carbapenem-resistant	Not tested
Priority 2: HIGH	
▪ Enterococcus faecium, vancomycin-resistant	✔ [3]
▪ Staphylococcus aureus, methicillin-resistant, vancomycin-intermediate and resistant	✔ [4]
▪ Helicobacter pylori, clarithromycin-resistant	✔ [5]
▪ Neisseria gonorrhoeae, cephalosporin-resistant, fluoroquinolone-resistant	✔ [6]
▪ Campylobacter spp., fluoroquinolone-resistant	Not tested
▪ Salmonellae, fluoroquinolone-resistant	Not tested
Priority 3: MEDIUM	
▪ Streptococcus pneumoniae, penicillin-non-susceptible	✔ [7]
▪ Haemophilus influenzae, ampicillin-resistant	Not tested
▪ Shigella spp., fluoroquinolone-resistant	Not tested

[1] Active in vitro against Recce's own superbug of this bacterium
[2] Active in vivo against a member of this family CRE *E. coli*
[3] Active in vitro against a very closely related species, Enterococcus faecalis, Vancomycin resistant
[4] Active both in vitro and in vivo against MRSA, Methicillin-resistant Staphyloccocus aureus.
[5] Active both in-vitro and in vivo against three strains (2 of which were superbugs)
[6] Active in vitro (superbug not available)
[7] Active in-vitro against related superbug Klebsiella pneumoniae

World Health Organization

"Antimicrobial resistance is a global health emergency that will seriously jeopardise progress in modern medicine"

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Dr Tedros Adhanom Ghebreyesus
Director-general of the WHO

BOARD OF DIRECTORS &
KEY MANAGEMENT PERSONNEL

Dr Graham Melrose
Executive Chairman

BSc (Hons), PhD (UWA), MBA (Macq), FRACI, C Chem, FAICD

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

Michele Dilizia
Executive Director

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

Co-inventor and qualified medical scientist; specialisation in medical microbiology & regulatory affairs.

James Graham
Executive Director

BCom (Entrepreneurship), GAICD

Extensive experience in marketing, business development and commercialisation of early stage technologies with global potential.

Peter Williams
CFO and Company Secretary

BBus, FCPA, MAICD

Accomplished senior ASX finance professional with significant local and international experience. Former VP Finance with BHP World Minerals reporting to the CEO.

Arthur Kollaras
Principal Engineer

BSc Beng (Chem), PhilEng (Enviro)

Highly qualified in chemical engineering and microbiology, has significant experience taking a new technology concept to pilot plant and full scale FDA standards and production internationally.

Dr Justin Ward
Senior Quality Chemist

BSc (Chem), Ph.D (Chem), MRACI, CChem

A quality control expert who has worked with leading pharmaceutical companies. He will bring Recce's research and development laboratory in Perth up to US FDA standard.

FINANCIALREPORT

For the year ending 30 June 2017
Recce Limited Consolidated Entity ABN: 73 124 849 065

CONTENTS

DIRECTORS' REPORT

Your Directors present their report on the Group for the year ended 30 June 2017.

Directors

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

- **Dr Graham Melrose**
- **Ms Michele Dilizia**
- **Mr James Graham**
- **Dr Dominic Barnes** Appointed 14 May 2016 – Resigned 20 January 2017
- **Ms Bernadette Murdoch** Appointed 26 May 2016 – Resigned 21 November 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 $3,025,504 (2016: $4,840,358 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 a wide range of Efficacy, Safety & Chemistry related tests for the purposes of gathering data to support its Investigational New Drug (IND) application to the Food and Drug Administration in the USA.

A range of announcements related to these tests and supporting activities were released as follows:

- On 13 July 2016 it was announced that an anti-viral test, conducted by a Contract Research Organisation (CRO) in the US, showed efficacy *in-vitro* against Influenza virus
- On 20 July 2016 the Company announced that three separate laboratory screening tests for genetic toxicity indicated that RECCE® 327 is not carcinogenic (does not cause cancer)
- On 28 July 2016 the Company announced that it had scaled up manual manufacturing capabilities in its Perth facilities, producing 9 litres of RECCE® 327 over one week and expansion to Sydney
- On 15 August 2016 the Company announced that it had again *in-vivo* (mice) increased the "normal" dose of RECCE® 327 by at least a factor of 4, with no toxicity observed
- On 31 October 2016 the Company announced that it had employed chemistry and manufacturing experts to support its quality assurance and scale-up process as well as the advancing of its patent family 2 application
- On November 2016 the Company announced that dose escalation in a cancer mouse model showed tolerance without animal deaths. Inhibition of colon carcinoma growth was not significant

DIRECTORS' REPORT cont.

- On 20 December 2016 the Company announced that an anti-viral test, conducted by a CRO in the US, showed efficacy *in-vivo* (mice) against Influenza virus
- On 18 January 2017 the Company announced that an anti-bacterial test, conducted by a CRO in the US, showed Recce's lead compound reduces illness in mice infected by resistant *E. coli* bacteria. It further showed not only a better 'Health score' than those treated using last line of defence antibiotic Tigecycline but a better weight loss score
- On 23 February 2017 the Company announced that it had suspended its anti-cancer program to focus on commercialising its synthetic lead compound against resistant bacteria and viruses. It further announced that its patent family 3 application had progressed from a provisional to patent pending status across all jurisdictions party to the International Patent Cooperation Treaty (PCT)
- On 24 February 2017 the Company announced that it had captured RECCE® 327 in action against *E. coli* bacteria using University of Western Australia's sophisticated electron microscope. This was important as the images reinforced Recce's unique and patented mechanism of action at a cellular level
- On 27 March 2017 the Company announced that in a further *in-vivo* (dogs) safety test, conducted by a CRO in the US, the intravenous infusion of RECCE® 327 at 70 mg/Kg over four hours was well tolerated
- On 10 April 2017 the Company released an operational update informing shareholders that its IND application was on schedule, it had moved into larger animal species and began work on its automated manufacture facility. The Company further confirmed it had demonstrated efficacy against 7 of the top 12 bacterial threats identified and priority-categorised by the World Health Organisation and opportunities for additional market exclusivity
- On 19 May 2017 the Company announced that it had successfully completed a chemical analysis and structural study at a CRO in the US. The study had shown RECCE® 327 could be tracked in the blood of study animals - enabling researchers to trace its path. The tests also confirmed the compound's structure, chemical stability and mode of action as outlined in its patents and manufacturing process
- On 16 June 2017 the Company announced that it had successfully secured up to A$6.05 million investment agreement with US institutional investor The Lind Partners over 2 years to support its IND application and Phase 1 clinical trials
- On 22 June 2017 the Company announced it had completed construction of a wholly owned production facility in Macquarie Park, Sydney with expected outputs capable of supporting RECCE® 327 through both Phase 1 and Phase 2 human trials.

So where does that leave us? With now over 30 pre-clinical studies completed, results favourably indicate that RECCE® 327:

- Does not cause healthy cells to mutate (cancer)
- Destroys Gram positive and Gram negative bacteria - broad spectrum
- Acts against bacteria in both normal and mutated superbug forms – with the same ease
- Contains a patented polymeric structure, intentionally designed to overcome the traditional challenges of bacterial mutation/ resistance (superbugs)
- Is suited to administration against sepsis by intra-venous drip
- Has a wide and safe therapeutic dosing window

5. Financial Position

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

DIRECTORS' REPORT cont.

6. Significant Changes in State of Affairs

On 15 July 2016 3,543,000 Class A Performance Shares were converted to ordinary shares and on 16 January 2017 a further 1,059,000 Class A Performance Shares were converted to ordinary shares. Although these conversions related to the Company achieving the milestone applicable to these Performance Shares on 16 February 2016, the Performance Shares allocated to G Melrose were restricted from conversion as a result of the application of section 606(1) of the Corporations Act 2001. The restrictions related to these Performance Shares was lifted on these dates.

On 16 June 2017 the Company announced it had signed a Share Purchase and Convertible Security Agreement, whereby the Company could receive over a 24 month period, up to A$6.05 million from a US institutional investor, the Australian Special Opportunity Fund LP (ASOF). ASOF made an initial upfront investment of $300,000 by way of a $250,000 24 month interest free unsecured convertible security (with a face value of $300,000) and a $50,000 equity investment that was satisfied by the issue of ordinary shares. Subsequent investments, subject to certain conditions, be made in monthly equity tranches of $50,000 that can be increased up to $250,000 by mutual consent between Recce and ASOF.

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 20 July 2017 the Company announced that its manufacturing facility in Sydney was producing at name-plate standard its antibiotic compounds at volumes in preparation for human clinical trials.

On 31 July 2017 the Company announced the following:

- It had positive data from additional pre-clinical studies that confirmed that RECCE® 327 was equally effective in killing Gram Positive and Gram Negative bacteria and their superbug form;
- That the preferred mode of delivery of RECCE® 327 was via an IV drip; and
- That independent experts had reviewed Recce's draft IND and recommended that Recce should proceed to a pre-IND meeting with the US FDA.

On 7 July 2017 the Group issued a purchase order in relation to the purchase of an Acquity UPLC – H Class at a cost of $138,301. This piece of equipment will be used to analyse Recce's lead compound RECCE® 327.

No other matter or circumstance has arisen since 30 June 2017, which has significantly affected, or may significantly affect the state of affairs of the Group in subsequent financial years.

DIRECTORS' REPORT cont.

10. Information on Directors

Dr Graham Melrose
Chairman (Executive)

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

Experience
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

30,375,003 Ordinary 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 James Graham
Director (Executive)

Qualifications
BCom (Entrepreneurship), GAICD

Experience
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

1,868,601 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.

Ms Michele Dilizia
Director (Executive)

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

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)

Qualifications
FAICD, MMedSc, MBA, MBBS

Experience
Appointed a director on 14 May 2016 –
Resigned 20 January 2017

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

Directorships held in other listed entities during the last three years
Nil

DIRECTORS' REPORT cont.

Ms Bernadette Murdoch
Director (Non-Executive)

Qualifications

Bachelor Public Relations. Completed a Bachelor of Arts in Public Relations at RMIT University including an exchange program with Leeds Metropolitan University, UK.

Experience

Appointed a director on 26 May 2016 –
Resigned 21 November 2016

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

20,000 Ordinary Shares at the time of resignation.

Special Responsibilities

Bernadette was Chairperson of the Audit and Risk Management Committee and was a member of the Nomination and Remuneration Committee.

Directorships held in other listed entities during the last three years

Nil

DIRECTORS' REPORT cont.

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 2017:

(i) Non-Executive Directors

Dominic Barnes	Non-Executive Director (appointed 14 May 2016, resigned 20 January 2017)
Bernadette Murdoch	Non-Executive Director (appointed 26 May 2016, resigned 21 November 2016)

(ii) Executive Directors

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

(iii) Key Management Personnel

Peter Williams	CFO and Company Secretary (appointed 19 May 2015)
Justin Ward	Quality Assurance Manager (appointed 10 October 2016)
Arthur Kollaras	Principal Engineer (appointed 17 October 2016)

The Remuneration Report covers the following matters:

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

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

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

Executive Remuneration

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

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

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

DIRECTORS' REPORT cont.

Remuneration Report (Audited) cont.

The Group's reward policy reflects its obligation to align executives' 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.

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.

DIRECTORS' REPORT cont.

Remuneration Report (Audited) cont.

(B) Executive Service Agreements

Name	Base Salary	Performance-Based Incentives	Term	Notice Period
Graham Melrose	$220,000 pa	Nil	5 years effective from 1 July 2015	3 months
James Graham	$138,000 pa	Nil	2 years effective from 1 February 2017	3 months
Michele Dilizia	$101,000 pa	Nil	2 years effective from 1 July 2016	3 months
Peter Williams	$165,000 pa	Nil	5 years effective from 19 May 2015	3 months
Justin Ward	$100,460 pa	Nil	No fixed term	4 weeks
Arthur Kollaras	$159,820 pa	Nil	No fixed term	4 weeks

The appointments of Dr Barnes and Ms Murdoch as Non-Executive Directors were subject to the terms and conditions set out in their respective letters of appointment. Each of the Non-Executive Directors were entitled to $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	2017	220,000	20,900	-	-	-	240,900	-	-
M Dilizia	2017	101,000	9,595	-	-	-	110,595	-	-
J Graham	2017	145,431	13,816	-	-	-	159,247	-	-
D Barnes [1]	2017	30,870	2,932	-	-	-	33,802	-	-
B Murdoch [2]	2017	22,108	2,100	-	-	-	24,208	-	-
Executives									
P Williams	2017	176,250	16,743	-	-	-	192,993	-	-
J Ward [3]	2017	72,644	6,901	-	-	10,000	89,545	11%	-
A Kollaras [4]	2017	112,561	10,693	-	-	10,000	133,254	8%	-
		880,864	83,680	-	-	20,000	984,544		

1 D Barnes was appointed to the Board on 14 May 2016 and resigned on 20 January 2017
2 B Murdoch was appointed to the Board on 26 May 2016 and resigned on 21 November 2016
3 J Ward commenced employment on 10 October 2016
4 A Kollaras commenced employment on 17 October 2016

DIRECTORS' REPORT cont.

Remuneration Report (Audited) cont.

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	-	-	2,920,219	3,509,148		

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 20.

Year Ended 30 June 2017

(i) Issue of ordinary shares

On 25 November 2016 the Company issued 103,913 fully paid ordinary shares to two new employees as a "sign-on" bonus. A summary of this event is as follows:

Employee	Shares Issued
J Ward	52,631
A Kollaras	51,282
	103,913

(ii) Issue of options

No options were issued to Directors or KMP as part of compensation during the period ended 30 June 2017.

(iii) Issue of performance shares

No performance shares were issued to Directors or KMP as part of compensation during the period ended 30 June 2017.

Remuneration Report (Audited) cont.

Year Ended 30 June 2016

(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
	1,778,466	**889,232**	**2,667,698**

The two Non-Executive Directors, appointed in May 2016 were entitled to receive $30,000 of shares in the Company for each year of service completed. Accordingly a pro-rata accrual was 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:

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.

DIRECTORS' REPORT cont.

Remuneration Report (Audited) cont.

(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 (EMEA)) 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**).

(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.

Remuneration Report (Audited) cont.

Details of Performance Shares issued

Year ended 30 June 2017

Nil

Year ended 30 June 2016

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

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

Year ended 30 June 2017

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.

Remuneration Report (Audited) cont.

2017	Balance at the Start of the Period	Net Change Other	Conversion of Performance Shares	Share Based Payment	Balance at date of resignation	Balance at the End of the Period
Directors						
G Melrose	25,773,003	-	4,602,000 [1]	-	-	30,375,003
D Barnes	-	-	-	-	-	-
B Murdoch	-	20,000	-	-	20,000	-
J Graham	3,729,811	(79,960)	-	-	-	3,649,851
M Dilizia	2,886,061	-	-	-	-	2,886,061
Executives						
P Williams	281,250	-	-	-	-	281,250
J Ward	-	-	-	52,631	-	52,631
A Kollaras	-	-	-	51,282	-	51,282
	32,670,125	**(59,960)**	**4,602,000**	**103,913**	**20,000**	**37,296,078**

[1] Although G Melrose was entitled to convert 6,075,000 Class A Performance Shares on 16 February 2016 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

Year ended 30 June 2017

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.

2017	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 [1]	22,827,000	-	(4,602,000)	-	-	18,225,000
D Barnes	-	-	-	-	-	-
B Murdoch	-	-	-	-	-	-
J Graham	2,237,886	-	-	-	-	2,237,886
M Dilizia	1,731,636	-	-	-	-	1,731,636
Executives						
P Williams	168,750	-	-	-	-	168,750
J Ward	-	-	-	-	-	-
A Kollaras	-	-	-	-	-	-
	26,965,272	**-**	**(4,602,000)**	**-**	**-**	**22,363,272**

[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 on 16 February 2016 as a result of the application of section 606(1) of the Corporations Act 2001.

Performance Shares Awarded, Vested and Lapsed During the Year

Year ended 30 June 2017

The tables below discloses the number of performance shares granted to KMP as remuneration during FY2017 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.

DIRECTORS' REPORT cont.

Remuneration Report (Audited) cont.

Class A Performance Shares

2017	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[1]	2015	6,075,000	$0.173	100	6,075,000	-	*	-
D Barnes	-	-	-	-	-	-		-
B Murdoch	-	-	-	-	-	-		-
J Graham	2015	745,962	$0.173	100	745,962[2]	-	*	-
M Dilizia	2015	577,212	$0.173	100	577,212[2]	-	*	-
Executives								
P Williams		56,250	$0.173	100	56,250[2]		*	-
		7,454,424			**7,454,424**			**-**

1 G Melrose was entitled to convert 6,075,000 Class A Performance Shares on 16 February 2016 but 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. During this financial year 4,602,000 Class A Performance Shares were converted.

2 These performance shares vested 16 February 2016.

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

Year ended 30 June 2016

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

2016	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 [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.

Remuneration Report (Audited) cont.

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.

Remuneration Report (Audited) cont.

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.

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	10	10	-	-	-	-
Ms Michele Dilizia	10	10	-	-	1	1
Mr James Graham	10	10	2	2	-	-
Dr Dominic Barnes[1]	5	5	2	2	1	1
Ms Bernadette Murdoch[2]	4	4	2	2	1	1
A Number eligible to attend						
B Number attended						

[1] Dr Dominic Barnes resigned on 20 January 2017
[2] Ms Bernadette Murdoch resigned on 21 November 2016

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 no payments were made to BDO, the auditor of the Group, for non-audit related services.

14. Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 30 of the Directors' Report.

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

Dr Graham Melrose
Executive Chairman

Dated: 31 August 2017

AUDITOR'S INDEPENDENDENCE DECLARATION

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

As lead auditor of Recce Limited for the year ended 30 June 2017, 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 Limited and the entities it controlled during the period.

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 31 August 2017

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 on the Company's website at www.recce.com.au within the Company's **Corporate Governance Section** and the **Board Committees and Charters Section**.

- 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 2017.

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 polices and structures will be reviewed.

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Principle 1: Lay solid foundations for management and oversight		
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 at www.recce.com.au
Recommendation 1.2		
A listed entity should:		
(a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and	YES	(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.
(b) Provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a Director.		(b) All material information relevant to the decision on whether or not to re-elect Ms Michele Dilizia, including information relating to her 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 21 November 2017.
Recommendation 1.3		
A listed entity should have a written agreement with each Director and Senior Executive setting out the terms of their appointment	YES	The Company has written agreements with all Directors and Senior Executives which sets out the terms of their appointment.
Recommendation 1.4		
The Company Secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.	PARTIALLY	The Board Charter outlines the roles, responsibility and accountability of the Secretary. The Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. The Company Secretary and the Board-appointed Secretary share the roles and responsibilities of the Secretary.

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 1.5		
A listed entity should:	YES	
(a) Have a diversity policy which includes requirements for the Board: (i) to set measurable objectives for achieving gender diversity; and (ii) to assess annually both the objectives and the entity's progress in achieving them;		(a) The Company has adopted a Diversity Policy which complies with the guidelines prescribed by the ASX Corporate Governance Council, including: (i) the Diversity Policy provides a framework for the Company to set and achieve measurable objectives that encompass gender equality. (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.
(b) Disclose that policy or a summary of it; and		(b) The Diversity Policy is available on the Company's website.
(c) Disclose as at the end of each reporting period: (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 (ii) either: (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 (B) The entity's "Gender Equality Indicators", as defined in the Workplace Gender Equality Act 2012.		(c) The Company is committed to always using women among its total of usually five. As at 30 June 2017, 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. ▪ 67% of the Company's Board were male and 33% 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.
Recommendation 1.6		
A listed entity should:	PARTIALLY	
(a) Have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and		(a) The Nomination and Remuneration Committee is responsible to the Board 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.

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 1.6 cont.		
(b) Disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.		(b) The Nomination and Remuneration Committee did not undertake a performance evaluation of its Board or its individual Directors as the Non-Executive Directors resigned prior to this task being completed.
Recommendation 1.7		
A listed entity should:	PARTIALLY	
(a) Have and disclose a process for periodically evaluating the performance of its Senior Executives; and		(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.
(b) Disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.		(b) No performance evaluations were undertaken in the reporting period.
Principle 2: Structure the Board to add value		
Recommendation 2.1		
The Board of a listed entity should:	PARTIALLY	
(a) Have a nomination committee which: (i) has at least three members, a majority of whom are Independent Directors; and (ii) is chaired by an Independent Director, and disclose: (iii) the charter of the committee; (iv) the members of the committee; and (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		(a) For a part of the year the Company had a Nomination and Remuneration Committee which consisted of three members, a majority of whom were Independent Directors and it was chaired by an Independent Director. However, at the date of this report the Company does not have a Nomination and Remuneration Committee. The times and attendance at each committee meeting is disclosed in section 10 of the Directors' Report. A copy of the Nomination and Remuneration Committee Charter is available on the Company's website.
(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.		(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.

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 2.2		
A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.	YES	The Company has a skills matrix which was developed by the Nomination and Remuneration Committee. The skills matrix is disclosed on the Company's website.
Recommendation 2.3		
A listed entity should disclose:	PARTIALLY	
(a) The names of the Directors considered by the Board to be Independent Directors;		(a) Page 15-17 of the Directors Report discloses which directors were considered independent during the year.
(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		(b) The Board currently has no independent directors but has commenced the process of identifying suitably qualified candidates to fulfil this important role.
(c) The length of service of each Director.		(c) The length of service of each Director is as follows: Mr Graham and Ms Dilizia were appointed as Directors on 23 June 2015 and have served as Directors of the Company for approximately 27 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 10 years and 5 months.
Recommendation 2.4		
A majority of the Board of a listed entity should be Independent Directors.	NO	The Board Charter requires that where practical the majority of the Board will be independent. Temporarily the Board currently comprises a total of 3 Directors, of whom none are considered to be independent. The Board does not currently consider an independent majority of the Board to be appropriate given:
		(a) The magnitude of the Company's operations; and (b) The relevant skills and experience of Dr Melrose, Ms Dilizia and Mr Graham, mean that the Board is appropriately skilled at this stage, to further the progress and development of the Company. The Company is seeking to appoint Independent Directors in the future.

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 2.5		
The Chair of the Board of a listed entity should be an Independent Director and, in particular, should not be the same person as the CEO of the entity.	NO	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. The Company may seek to appoint an independent Chair in the future.
Recommendation 2.6		
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.	YES	The Nomination and Remuneration Committee is responsible to the Board for reviewing and recommending to the Board induction and professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities. 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. 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.
Principle 3: Act ethically and responsibly		
Recommendation 3.1		
A listed entity should:	YES	
(a) Have a code of conduct for its Directors, Senior Executives and employees; and		(a) The Company has a Code of Conduct – the Company's Obligations to Stakeholders that applies to all.
(b) Disclose that code or a summary of it.		(b) The Company's Code of Conduct – the Company's Obligations to Stakeholders is available on the Company's website.

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Principle 4: Safeguard integrity in financial reporting		
Recommendation 4.1		
The Board of a listed entity should:	PARTIALLY	
(a) Have an audit committee which: (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. And disclose: (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		(a) For a part of the year the Company had an Audit and Risk Management Committee which consisted of three members, a majority of whom were Independent Directors and it was chaired by an Independent Director. However, at the date of this report, the Company does not have an Audit and Risk Management Committee. The times and attendance at each committee meeting is disclosed in Section 10 of the Directors' Report. The Audit and Risk Management Committee Charter is available on the Company's website.
(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.		(b) The Audit and Risk Management Committee regularly devotes time to consider the robustness of the various internal control systems it has in place to safeguard the integrity of the Company's financial reporting. 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. The Audit and Risk Management Committee also assumes responsibility to the Board 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.

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 4.2		
The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that 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.	YES	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.
Recommendation 4.3		
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.	YES	At the last AGM of the company, held on 22 November 2016 the external auditor of the Company attended this meeting and it is expected that the Company's external auditor will attend future AGMs and is available to answer questions from security holders relevant to the audit.
Principle 5: Make timely and balanced disclosure		
Recommendation 5.1		
A listed entity should:	YES	
(a) Have a written policy for complying with its continuous disclosure obligations under the Listing Rules: and		(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.
(b) Disclose that policy or a summary of it.		(b) The Continuous Disclosure Policy is available on the Company's website.

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Principle 6: Respect the rights of security holders		
Recommendation 6.1		
A listed entity should provide information about itself and its governance to investors via its website.	YES	Shareholders can access information about the Company and its governance (including its Constitution and adopted governance policies) from the Company's website on the "Corporate Governance" page.
Recommendation 6.2		
A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	YES	The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with its investors. The Strategy outlines a range of ways in which information is communicated to shareholders. A copy of the Company's Shareholder Communications Strategy policy is available on the Company's website.
Recommendation 6.3		
A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	YES	Security holders have the ability to communicate with Directors through various means including: ▪ having the opportunity to ask questions of Directors at all general meetings; ▪ the presence of the Auditor at AGMs to take shareholder questions on any issue relevant to their capacity as Auditor; and ▪ the Company having Directors available to answer shareholder questions submitted by telephone, email and other means (where appropriate). Traditionally, the key forum for two-way communication between the Company and its Security holders is its AGM.
Recommendation 6.4		
A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	YES	Security holders can register with the Company to receive email notifications when an announcement is made by the Company to the ASX. In the first instance, Shareholders' queries are referred to the CFO & Company Secretary.

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Principle 7: Recognise and manage risk		
Recommendation 7.1		
The Board of a listed entity should:	PARTIALLY	
(a) Have a committee or committees to oversee risk, each of which: (i) has at least three members, a majority of whom are Independent Directors; and (ii) is chaired by an Independent Director, and disclose: (iii) the charter of the committee (iv) the members of the committee; and (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		(a) Whilst temporarily without its usual two Non-Executive Directors for a part of the year the Company had an Audit and Risk Management Committee which consisted of three members, a majority of whom were Independent Directors and it was chaired by an Independent Director. However, at the date of this report the Company does not have an Audit and Risk Management Committee. The Company is in the process of selecting a minimum of two independent directors. The times and attendance at each committee is disclosed in the Directors' Report. The Audit and Risk Management Committee Charter is available on the Company's website.
(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.		(b) The Board at all scheduled meetings devotes time to overseeing risk and maintaining the Company's risk management framework.
Recommendation 7.2		
The Board or a committee of the Board should:	YES	
(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		(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. Whilst the Company does not have an Audit & Risk Management Committee the Board has assumed this important role. 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. In addition, the Company has a number of other policies that directly or indirectly serve to reduce and/or manage risk, including: ▪ Continuous Disclosure Policy ▪ Code of Conduct ▪ Trading Policy

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 7.2 cont.		
(b) Disclose in relation to each reporting period, whether such a review has taken place.		(b) The Company formulated its risk management framework in preparation for the Company's admission to the official list of the ASX. A copy of the Risk Management Policy is available on the Company's website in the Corporate Governance Section. At every Board meeting the directors review the Company's Risk Register and related mitigation strategies.
Recommendation 7.3		
A listed entity should disclose:	PARTIALLY	
(a) If it has an internal audit function, how the function is structured and what role it performs; or		(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.
(b) If it does not a 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.		(b) The Company has adopted a Risk Management Policy which the Company follows. With the current temporary absence of an Audit and Risk Management Committee the Board has been reviewing, on a regular basis, the reports prepared by management in relation to the Company's risk profile.
Recommendation 7.4		
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.	YES	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

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Principle 8: Remunerate fairly and responsibly		
Recommendation 8.1		
(a) The Board of a listed entity should: (i) Have a remuneration committee which: (ii) has at least three members, a majority of whom are Independent Directors; and (iii) is chaired by an Independent Director, and disclose; (iv) the charter of the committee; (v) the members of the committee; and (vi) 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	PARTIALLY	(a) For a part of the year the Company had a Nomination and Remuneration Committee which consisted of three members, the majority of whom were Independent Directors and it was chaired by an Independent Director. However, at the date of this report, the Company does not have a Nomination and Remuneration Committee. However, it has commenced the process to identify and then appoint two Non-Executive Directors. The times and attendance at each committee meeting is disclosed in the Directors' Report. The Nomination and Remuneration Committee Charter is available on the Company's website.
(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.		(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.
Recommendation 8.2		
A listed entity should separately disclose its policies and practices regarding the remuneration of Non-Executive Directors and the remuneration of Executive Directors and other Senior Executives 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.	YES	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.

CORPORATE GOVERNANCE STATEMENT cont.

PRINCIPLES AND RECOMMENDATIONS	COMPLY	EXPLANATION
Recommendation 8.3		
A listed entity which has an equity-based remuneration scheme should: ▪ 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	YES	(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.
▪ Disclose that policy or a summary of it.		(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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Note	2017 $	2016 $
Revenue from continuing operations	5	50,626	44,102
Other income	5	139,295	136,518
Total revenue		**189,921**	**180,620**
Laboratory expenses		(999,357)	(142,249)
Employee benefits expense		(1,344,960)	(757,135)
Share based payments expense	20	(13,096)	(3,321,593)
Depreciation and amortisation expenses		(25,514)	(16,658)
Net foreign exchange gains/(losses)		(28,416)	4
Travel expenses		(48,915)	(92,671)
IPO expenses		-	(190,614)
Patent related costs		(60,635)	(78,332)
Rental expenses		(181,977)	(108,625)
Other expenses	6	(510,149)	(304,066)
Finance costs	6	(2,406)	(9,039)
Loss before income tax		**(3,025,504)**	**(4,840,358)**
Income tax (expense)/benefit	4	-	-
Loss after income tax		**(3,025,504)**	**(4,840,358)**
Other comprehensive income			
Other comprehensive income for the year net of income tax		-	-
Total comprehensive loss for the year		**(3,025,504)**	**(4,840,358)**

Earnings per share for loss from continuing operations attributable to owners of Recce Ltd			
Basic and diluted loss per share (cents)	7	(3.95)	(8.61)
Earnings per share for loss attributable to owners of Recce Ltd			
Basic and diluted loss per share (cents)	7	(3.95)	(8.61)
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 2017

	Note	2017 $	2016 $
ASSETS			
Current assets			
Cash and cash equivalents	9	1,090,438	3,591,382
Trade and other receivables	10	60,185	39,565
Other		3,365	6,432
Total current assets		**1,153,988**	**3,637,379**
Non-current assets			
Property, plant and equipment	11	310,598	83,280
Total non-current assets		**310,598**	**83,280**
Total assets		**1,464,586**	**3,720,659**
LIABILITIES			
Current liabilities			
Trade and other payables	12	530,475	95,885
Borrowings		-	6,978
Other payables	13	159,820	92,197
Total current liabilities		**690,295**	**195,060**
Non-current liabilities			
Borrowings	14	161,289	-
Provisions	15	22,858	11,738
Total non-current liabilities		**184,147**	**11,738**
Total liabilities		**874,442**	**206,798**
Net assets		**590,144**	**3,513,861**
EQUITY			
Contributed equity	16	8,235,009	7,418,863
Reserves	23	1,533,172	2,247,531
Accumulated losses		(9,178,037)	(6,152,533)
Capital and reserves attributable to owners of Recce Ltd		590,144	3,513,861
Non-controlling interests		-	-
Total equity		**590,144**	**3,513,861**

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 2017

	Note	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from ATO		139,295	135,849
Payments to suppliers and employees		(2,705,298)	(1,758,604)
Interest received		70,542	24,186
Interest and other costs of finance paid		(2,406)	(9,039)
Net cash outflow from operating activities	19	**(2,497,867)**	**(1,607,608)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(246,079)	(78,061)
Proceeds from sale of property, plant and equipment		-	59,700
Net cash outflow from investing activities		**(246,079)**	**(18,361)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		249,980	126,390
Repayment of borrowings		(6,978)	(119,412)
Proceeds from issue of shares – net of costs		-	4,758,662
Net cash inflow from financing activities		**243,002**	**4,765,640**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,500,944)**	**3,139,671**
Cash and cash equivalents at beginning of year		3,591,382	451,711
Cash and cash equivalents at end of year	9	**1,090,438**	**3,591,382**

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 2017

	Contributed Equity $	Accumulated Losses $	Share-Based Payments Reserve $	Option Reserve $	Performance Share Reserve $	Total Equity $
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**
At 1 July 2016	7,418,863	(6,152,533)	6,904	-	2,240,627	3,513,861
Total comprehensive income for the year						
Loss for the year	-	(3,025,504)	-		-	(3,025,504)
Transactions with owners in their capacity as owners						
Issue of Performance Shares	-	-	-		-	-
Options issued related to convertible security	-	-	-	88,691	-	88,691
Conversion of Performance Shares	796,146	-	-		(796,146)	-
Shares to be issued to Non-Executive Directors	-	-	(6,904)		-	(6,904)
Shares allotted to employees	20,000	-	-		-	20,000
At 30 June 2017	**8,235,009**	**(9,178,037)**	**-**	**88,691**	**1,444,481**	**590,144**

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 2017

Note

1. Corporate Information

The consolidated financial statements of Recce Ltd for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 29 August 2017 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 cont.

For the year ended 30 June 2017

2. Statement of Significant Accounting Policies cont.

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 differences are recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

e. Revenue Recognition

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

2. Statement of Significant Accounting Policies cont.

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

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries, associates and joint ventures where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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 as well as for sundry disclosures.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

2. Statement of Significant Accounting Policies cont.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

2. Statement of Significant Accounting Policies cont.

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.

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.

2. Statement of Significant Accounting Policies cont.

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.

t. GST

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

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

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

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

u. 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 22). 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. Convertible Security Liability and Embedded Derivatives

A convertible security was issued by the Group as part of a share purchase agreement (see note 14), which includes embedded derivatives (option to convert the security to variable number of shares in the Group). This convertible security is recognised as financial liabilities at fair value through profit or loss. On initial recognition, the fair value of the convertible security and value of the equity components (options issued at commencement of facility) will equate to the proceeds received and subsequently the liability is remeasured at fair value each reporting period. The fair value movements are recognised on the profit or loss as finance costs.

w. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

2. Statement of Significant Accounting Policies cont.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 18. 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.

x. Going Concern

For the period ended 30 June 2017, the Company recorded a loss of $3,025,504 and had net cash outflows from operating activities of $2,497,867. The ability of the Company to continue as a going concern and being able to continue to fund its operating activities is dependent on securing additional funding through a share placement to new or existing investors together with receiving a substantially increased R&D tax rebate.

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

The Directors believe there are sufficient funds to meet the Company's working capital requirements as at the date of this report. Based on the success of current progress in the Company, it is considered that re-financing through equity funds would be well supported. Subsequent to period end the Company expects to receive funds via both equity and an R&D tax rebate.

The financial statements have been prepared on the basis that the Company is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The Directors have prepared cash flow projections that support the ability of the Company to continue as a going concern, subject to raising additional funds through equity as detailed above; and
- The Company receiving its 2017 R&D tax rebate.

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

2. Statement of Significant Accounting Policies cont.

y. 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 *Financial Instruments (December 2014)*	AASB 139 *Financial Instruments: Recognition and Measurement*	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. 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: 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: ▪ the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI) ▪ the remaining change is presented in profit or loss 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. Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9: ▪ classification and measurement of financial liabilities; and ▪ derecognition requirements for financial assets and liabilities. 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.	1 January 2018	*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.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

2. Statement of Significant Accounting Policies cont.

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after...)	Likely impact on initial application
AASB 1057 *Application of Australian Accounting Standards*	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 Application of Australian Accounting Standards.	1 January 2018	*When this Standard is first adopted for the year ending 20 June 2019, there will be no impact on the financial statements.*
AASB 16 *Leases*	AASB 117 *Leases Int. 4 Determining whether an Arrangement contains a Lease* *Int. 115 Operating Leases – Lease Incentives* *Int. 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	AASB 16: ▪ 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	*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.*
AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*	None	AASB 2016-2 amends AASB 107 Statement of Cash Flows 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	*When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

2. Statement of Significant Accounting Policies cont.

z. Critical accounting judgements and key sources of estimation uncertainty

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 20.

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.

Share purchase facility and convertible security carried at fair value through profit or loss

On initial recognition the value of the convertible security was calculated based on the difference between the proceeds received under the share purchase agreement and the fair value of the equity component (being the options issued at the commencement of the facility). The Options were valued using a Black Scholes option pricing model which takes into account the share price of the group and share price volatility (see details in note 14). Subsequently the fair value of the convertible security liability is accreted up to its face value by taking into account the discount on the conversion of the shares in the future and share price, see details of the term of the convertible security and funding facility in Note 14 and its fair value disclosures in Note 18.

The other components within the instruments (which are the derivatives relating to the collateral shares and the conversion option) were assessed to be nil at reporting date.

The company had also entered into derivative contract at each draw down as this is not a committed facility where the company has the election to terminate at any time with minimal cost. The converting features of the tranche advance as disclosed in note 14 results in a variable number of shares to be issued. The embedded derivatives will be recognised upon each drawdown and fair valued until shares are issued. The value of the conversion feature varies depending on the share price at draw down and at conversion date.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

4. Tax Expense

	2017 $	2016 $
Loss from continuing operations before income tax benefit	(3,025,504)	(4,840,358)
The prima facie tax on loss from ordinary activities before income tax is reconciled to income tax as follows: Prima facie tax payable on loss from ordinary activities before income tax at 27.5% (2016: 30%)	(832,014)	(1,452,107)
Add:		
Non-allowable items		
▪ Share-based payments expense	3,601	996,478
▪ IPO expenses	-	57,184
▪ Other non-allowable items	68	97
▪ Overseas laboratory testing	-	40,153
Less:		
▪ Tax losses and deferred tax not recognised	828,345	358,195
Income tax attributable to entity	**-**	**-**

Deferred tax Assets (at 27.5%)

Net deferred tax assets of $626,963 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.

5. Revenue and Other Income

	2017 $	2016 $
(a) Revenue		
▪ Interest received – from other persons	50,626	44,102
Total revenue	**50,626**	**44,102**
(b) Other Income		
▪ Research & Development Grant	139,295	132,918
▪ Sale of assets	-	3,600
Total other income	**139,295**	**136,518**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

6. Loss for the Year

	2017 $	2016 $
Expenses		
Finance costs:		
▪ External	2,406	9,039
Total finance costs	**2.406**	**9,039**
Other expenses:		
▪ Consulting fees	178,592	103,455
▪ Computer maintenance & consumables	11,020	12,453
▪ Insurance costs	31,974	61,937
▪ Communication expenses	9,122	8,835
▪ Audit fees	33,564	32,403
▪ Legal expenses	146,510	22,029
▪ Printing & stationery expenses	8,753	5,720
▪ ASIC/ASX fees	34,850	18,914
▪ Other	55,764	38,320
Total other expenses	**510,149**	**304,066**

7. Earnings per Share

	2017 $	2016 $
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	(3,025,504)	(4,840,358)
	(3,025,504)	**(4,840,358)**
Diluted earnings per share		
Loss used to calculate basic earnings per share	(3,025,504)	(4,840,358)
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	76,612,604	56,224,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

8. Auditor's Remuneration

	2017 $	2016 $
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	**33,564**	**32,403**
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
	33,564	**42,603**
Taxation services		
Non BDO firms for non-audit taxation services for the entity or any entity in the group:		
▪ review of income tax return	7,855	1,850
▪ general taxation advice	10,200	-
	18,055	**1,850**

9. Cash and Cash Equivalents

	2017 $	2016 $
Cash at bank and in hand	1,090,438	3,591,382
	1,090,438	**3,591,382**
Cash at bank and in hand bear floating interest rates between 0% and 1.50% depending on the amount on deposit. Refer Note 18 for additional risk exposure analysis.		

10. Trade and Other Receivables

	2017 $	2016 $
Current		
Other receivables	60,185	39,565
	60,185	**39,565**
Refer Note 18 for additional risk exposure analysis.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

11. Property, Plant and Equipment

	2017 $	2016 $
Plant & equipment		
▪ at cost	247,376	41,903
▪ accumulated depreciation	(27,237)	(10,948)
	220,139	**30,955**
Office furniture & equipment		
▪ at cost	25,339	19,339
▪ accumulated depreciation	(4,304)	(2,637)
	21,035	**16,702**
Computer equipment		
▪ at cost	21,392	16,078
▪ accumulated depreciation	(11,298)	(5,189)
	10,094	**10,889**
Office improvements		
▪ at capitalised cost	56,835	22,835
▪ accumulated depreciation	(1,160)	(390)
	55,675	**22,445**
Library		
▪ at cost	4,379	2,334
▪ accumulated depreciation	(1,151)	(757)
	3,228	**1,577**
Website development		
▪ at cost	2,797	2,797
▪ accumulated amortisation	(2,370)	(2,085)
	427	**712**
Total plant & equipment	**310,598**	**83,280**
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	30,955	37,293
Transfers	-	(278)
Additions	205,472	36,100
Disposals	-	(33,612)
Depreciation	(16,288)	(8,548)
Carrying amount at end of financial year	**220,139**	**30,955**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

11. Property, Plant and Equipment cont.

	2017 $	2016 $
Office furniture & equipment		
Carrying amount at beginning of financial year	16,702	16,066
Transfer	-	239
Additions	6,000	11,561
Disposals	-	(9,973)
Depreciation	(1,667)	(1,191)
Carrying amount at end of financial year	**21,035**	**16,702**
Computer equipment		
Carrying amount at beginning of financial year	10,889	16,686
Transfers	-	39
Additions	5,313	12,486
Disposals	-	(12,514)
Depreciation	(6,108)	(5,808)
Carrying amount at end of financial year	**10,094**	**10,889**
Office improvements		
Carrying amount at beginning of financial year	22,445	5,716
Additions	34,001	16,971
Depreciation	(771)	(242)
Carrying amount at end of financial year	**55,675**	**22,445**
Library		
Carrying amount at beginning of financial year	1,577	1,972
Additions	2,046	-
Depreciation	(395)	(395)
Carrying amount at end of financial year	**3,228**	**1,577**
Website development		
Carrying amount at beginning of financial year	712	1,186
Depreciation	(285)	(474)
Carrying amount at end of financial year	**427**	**712**

12. Trade and Other Payables

	2017 $	2016 $
Current		
Unsecured liabilities		
Trade payables	255,353	18,768
Other payables and provisions	275,122	77,117
	530,475	**95,885**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

13. Other Liabilities

	2017 $	2016 $
Current		
Unsecured liabilities		
Annual leave	100,008	58,371
Personal leave	59,812	33,826
	159,820	**92,197**

14. Loans and Borrowings

	2017 $	2016 $
Non-Current		
Convertible security at fair value through profit or loss	161,289	-
	161,289	**-**

Convertible security

On 16 June 2017 the Company announced it had signed a Share Purchase and Convertible Security Agreement, whereby the Company could receive over a 24 month period, up to A$6.05 million from a US institutional investor, the Australian Special Opportunity Fund LP (ASOF). ASOF made an initial upfront investment of $300,000 by way of a $250,000 24 month interest free unsecured convertible security (with a face value of $300,000) and a $50,000 equity investment that was satisfied by the issue of ordinary shares. Subsequent investments, subject to certain conditions, be made in monthly equity tranches of $50,000 that can be increased up to $250,000 by mutual consent between Recce and ASOF.

On execution and in accordance with the funding agreement, the Company issued the following securities to ASOF:

- 178,715 shares at $0.1958 in satisfaction of the commitment fee of $35,000
- 476,000 Collateral Shares to be held as security for funds advanced in monthly tranches
- 641,000 options, exercise price of $0.2593, expiry 21 June 2021. Refer to Note 18 for the model inputs used under the Black-Scholes option pricing model.

The Convertible Security amount advanced is $250,000 with a Face Value of $300,000. The conversion amount of the Convertible Security must be either the amount of the outstanding Face Value of the Convertible Security or an amount in multiples of $50,000 up to a maximum of the outstanding Face Value of the Convertible Security as elected to be converted at the discretion of the Convertible Security holder, ASOF after the expiry of the 90 day lock up period.

The Convertible Security and future tranches under the agreement will be convertible into new Ordinary Shares of the Company at the 'Conversion price', being the lesser of:

(a) 90% of the average 5 days consecutive daily VWAPs per Company Share during the 20 consecutive trading days immediately prior to the relevant conversion notice date selected by ASOF; and

(b) 130% of the average of each of the daily VWAPs during the 20 trading days immediately prior to 16 June 2017 calculated as 26 cents.

In addition to the above, should the conversion price at date of conversion of the note or tranche amounts to shares falls below the floor price (which is $0.15), then the company have the option to repay in cash at 105% of the tranche amount or convertible security liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

15. Provisions

	2017 $	2016 $
Non-Current		
Long Service Leave	22,858	11,738
	22,858	**11,738**
Long Service Leave		
Balance at beginning of the year	11,738	6,687
Provisions made during the year	11,120	5,051
Balance at end of year	**22,858**	**11,738**

16. Contributed Equity

	2017 Shares	2017 $	2016 Shares	2016 $
Share capital				
Ordinary shares - no par value				
Fully paid	78,004,500	8,235,009	72,643,872	7,418,863
Total contributed equity	**78,004,500**	**8,235,009**	**72,643,872**	**7,418,863**

	Number	$
Ordinary shares		
1 July 2016	72,643,872	7,418,863
Shares issued during the year		
▪ Shares issued to employees	103,913	20,000
▪ Shares issued to ASOF – collateral shares	476,000	-
▪ Shares issued to ASOF – commitment fee shares	178,715	-
▪ Conversion of Performance Shares – Class A [1]	4,602,000	796,146
30 June 2017	**78,004,500**	**8,235,009**
Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.		

[1] The milestone attributable to the Class A Performance Shares was achieved on 16 February 2016 i.e. the 20 day VWAP was $0.30 or higher over 20 consecutive trading days. However, 4,602,000 Performance Shares granted to G Melrose could not be converted as a result of the application of section 606(1) of the *Corporations Act 2001*.

17. 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. See Consolidated Statement of Changes in Equity for details of movements in Performance Share Reserve.

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. See Consolidated Statement of Changes in Equity for details of movements in Share-based Payment Reserve.

17. Reserves cont.

Option Reserve

The Option Reserve is used to recognise the fair value of options issued on 21 June 2017 to The Australia Special Opportunity Fund, LP as per the terms and conditions of the Share Purchase and Convertible Security Agreement.

641,000 options were issued to The Australian Special Opportunity Fund during the financial year ended 30 June 2017 as per the terms and conditions of the Share Purchase and Convertible Security Agreement. The options are exercisable at $0.259 each on or before 21 June 2020. These options have been assessed in value at $88,338. The value of the options was calculated using the Black Scholes model.

Model inputs used to value the options granted included:

- Exercise price is $0.259
- Market price of the shares at grant date is $0.230
- Expected volatility of the Group's shares is 100%
- Risk-free interest rate used is 1.50%
- Time to maturity, 3 years
- A dividend yield of 0%

The Option Reserve is used to recognise the fair value of options issued on 21 June 2017 to The Australian Special Opportunity Fund, LP as per the terms and conditions of the Share Purchase and Convertible Security Agreement.

18. 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:

	2017 $	2016 $
Financial Assets		
Cash and cash equivalents	1,090,438	3,591,382
Trade and other receivables	60,185	39,565
	1,150,623	**3,630,947**
Financial Liabilities		
Trade and other payables	530,475	95,885
Borrowings	161,289	6,978
	691,764	**102,863**
Net exposure	**458,859**	**3,528,084**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

18. Financial Risk Management cont.

(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:

	2017 $	2016 $
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 matured on 30 June 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 17		30 June 16	
	Weighted average interest rate	Balance $	Weighted average interest rate	Balance $
Cash and cash equivalents	1.31%	1,090,348	2.61%	3,591,382

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 2017, 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

18. Financial Risk Management cont.

	Post tax profit higher/(lower)		Other comprehensive income higher/(lower)	
	2017 $	2016 $	2017 $	2016 $
Judgements of reasonably possible movements:				
+1.0% (100 basis points)	9,552	35,870	-	-
-1.0% (100 basis points)	(9,552)	(35,870)	-	-

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.

Cash at bank and short-term bank deposits:

	2017 $	2016 $
Standard & Poors rating		
AA-	1,090,438	3,591,832

(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 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

18. Financial Risk Management cont.

Contractual maturities of financial liabilities	<6 months $	>6-12 months $	>12 months $	Total contractual cash flows $	Carrying amount $
30 June 17					
Trade and payables	530,475	-	-	530,475	530,475
Borrowings	-	-	161,289	161,289	161,289
	530,475	**-**	**161,289**	**691,764**	**691,764**
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**

(e) Recurring fair value measurements

The following financial instruments are subject to recurring value measurements:

	2017 $	2016 $
Level 3 – Convertible security	161,338	-

(f) 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 2017 and 30 June 2016 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.

(g) Valuation techniques to derive level 3 fair values

Convertible security at fair value through profit or loss

The fair value of the ASOF convertible security is determined based on the accretion of its carrying amount recognised at inception up to its face value by taking into account the discount on the conversion of the shares in the future and share price. When the share price goes up to 29 cents, the holder will have the option to convert at 26 cents (see terms of conversion terms in note 14), the value of the security will increase by $34,615 at that point. Each cent increase from that price point will increase the value of the security by $11,538

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

19. Cash Flow Information

	2017 $	2016 $
Reconciliation of profit after income tax to net cash flow from operating activities		
Loss for the year	(3,025,504)	(4,840,358)
Depreciation and amortisation	25,514	16,658
Non-cash share-based payments expense	13,096	3,321,593
Net (gain)/loss on sale of property, plant and equipment	-	(3,600)
Other	-	942
Change in operating assets		
▪ (increase)/decrease in other assets	3,067	(6,432)
▪ (increase)/decrease in receivables	(20,620)	(23,760)
▪ increase/(decrease) in creditors and accruals	427,837	(143,138)
▪ increase/(decrease) in provisions	78,743	70,487
Net cash outflow from operating activities	**(2,497,867)**	**(1,607,608)**

20. Share-based Payments

	2017 $	2016 $
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
Shares not issued to non-executive directors during the year [1]	(6,904)	6,904
Shares issued to staff as "sign-on" bonus	20,000	-
	13,096	**3,321,593**

1. The two new non-executive directors were entitled to receive $30,000 of shares in the Company for each year of service. The pro-rata accrual that was expensed for this entitlement in FY2016 has been reversed due to resignation of directors.

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.

20. Share-based Payments cont.

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 issued 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 and this is a significant judgement. 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. 2017 $13,096 (2016: $3,321,593).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

21. Related Party Transactions

	2017 $	2016 $
Parent entity		
The ultimate parent entity within the Group is Recce Ltd.		
Subsidiaries		
Interests in subsidiaries are disclosed in Note 24.		
Key management personnel compensation		
Short-term employee benefits	880,864	543,927
Post-employment benefits	83,680	45,002
Share-based payments	20,000	2,920,218
	984,544	**3,509,147**
Detailed remuneration disclosures are provided in the Remuneration Report on pages 18 to 28.		
The following transactions occurred with related parties:		
Superannuation contributions		
Contributions to superannuation funds on behalf of employees	83,680	45,002
Note: There were no other related party transactions		

22. Commitments

	2017 $	2016 $
(a) Lease Commitments		
Non-cancellable operating leases - future minimum lease payments		
Payable:		
Within one year	166,661	105,505
Later than one year but not later than 5 years	232,526	42,108
Later than 5 years	-	-
	399,187	**147,613**
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 cont.

For the year ended 30 June 2017

23. Parent Entity Information

The following information relates to the parent entity, Recce Ltd, as at 30 June 2017. The information presented hereto has been prepared using accounting policies consistent with those presented in Note 1.

	2017 $	2016 $
Parent entity		
Current assets	1,153,988	3,637,379
Non-current assets	310,598	83,280
Total assets	**1,464,586**	**3,720,659**
Current liabilities	690,295	195,060
Non-current liabilities	184,147	11,738
Total liabilities	**874,442**	**206,798**
Contributed equity	8,235,009	7,418,863
Reserves	1,533,172	2,247,531
Accumulated losses	(9,178,037)	(6,152,533)
Net Assets	**590,144**	**3,513,861**
Loss for the year	(3,025,504)	(4,840,358)
Total comprehensive loss for the year	**(3,025,504)**	**(4,840,358)**
The parent entity has no contingent liabilities as at 30 June 2017.		

24. 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 2017	30 June 2016
Recce (USA) LLP	United States	Research and Development	100%	100%
Recce (UK) Limited	United Kingdom	Research and Development	100%	100%

25. Contingent Liabilities and Contingent Assets

The Group is not aware of any contingent liabilities or contingent assets as at 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.

For the year ended 30 June 2017

26.Subsequent Events

On 20 July 2017 the Company announced that its manufacturing facility in Sydney was producing at name-plate standard its antibiotic compounds at volumes in preparation for human clinical trials.

On 31 July 2017 the Company announced the following:

- It had positive data from additional pre-clinical studies that confirmed that RECCE® 327 was equally effective in killing Gram Positive and Gram Negative bacteria and their superbug form;
- That the preferred mode of delivery of RECCE® 327 was via an IV drip; and
- That independent experts had reviewed Recce's draft IND and recommended that Recce should proceed to a pre-IND meeting with the US FDA.

On 7 July 2017 the Group issued a purchase order in relation to the purchase of an Acquity UPLC – H Class at a cost of $138,301. This piece of equipment will be used to analyse Recce's lead compound RECCE® 327.

No other matter or circumstance has arisen since 30 June 2017, 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 45 to 73, 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 2017 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: 31 August 2017

INDEPENDENT AUDIT REPORT
TO MEMBERS OF RECCE LTD

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INDEPENDENT AUDITOR'S REPORT

To the members of Recce Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Recce Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Material uncertainty related to going concern

We draw attention to Note 2(x) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDIT REPORT
TO MEMBERS OF RECCE LTD cont.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Accounting for Share Purchase and Convertible Security Agreement

Key audit matter	*How the matter was addressed in our audit*
During the year Recce Limited entered into a shares purchase and convertible security agreement with the Australian Special Opportunity Fund (ASOF) whereby the Group could issue shares in 24 tranches up to A$6.05 million as consideration. In entering the agreement the Group issued a convertible security with a face value of $300,000 and shares and options to ASOF. Refer Note 2, Note 14, Note 17 and Note 18 in the financial report for details. We have identified the accounting and the valuation of the convertible security as key audit matters due to complexity and judgements involved in determining the various conversion features which can have a significant effect on the appropriate classification of the components of this instrument, together with complexities as to the initial and subsequent valuations of the identified components.	Our audit procedures in this area included, but were not limited to: • Holding discussions with management and reviewing the share purchase and convertible security agreement to understand the key terms and conditions of the transaction; • Inspecting Board minutes and other appropriate documentation of authorisation to assess whether the transactions were appropriately authorised; • Assessing whether management's assessment of the classification of the components contained within the instrument was in accordance with accounting standards; • Checking management's calculations carried out in respect of the valuation of the debt and equity components of the instrument; and • Involving our valuation specialists to assess the appropriateness of the volatility assumption used in the Company's calculation of the options issued. We also assessed the adequacy of the related disclosures in the financial report.

Other information

The directors are responsible for the other information. The other information comprises the director's report and the corporate governance statement for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date.

INDEPENDENT AUDIT REPORT
TO MEMBERS OF RECCE LTD cont.

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

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

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

Responsibilities of the directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

INDEPENDENT AUDIT REPORT
TO MEMBERS OF RECCE LTD cont.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 28 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Recce Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

BDO Audit (WA) Pty Ltd

BDO
J Prue

Jarrad Prue

Partner

Perth, 31 August 2017

ADDITIONAL SHAREHOLDER INFORMATION

Additional information included in accordance with the Listing Rules of the Australian Securities Exchange Limited. The information is current as at 30 September 2017.

1. Quotation

Listed fully paid ordinary securities in Recce Limited are quoted on the Australian Securities Exchange under ASX code RCE.

2. Voting Rights

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

(a) at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and

(b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

There are no voting rights attached to any Options or Performance Rights on issue.

3. Unmarketable Parcels

As at 30 September 2017, there were 87 holders of unmarketable parcels of less than 2,565 ordinary shares (based on the closing share price of $0.195).

4. On-market Buy Backs

There is no on-market buy back currently in place.

5. Distribution of Share and Option Holders

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

(i) Fully Paid Ordinary Shares

Shares Range	Holders	Units	%
1 – 1,000	13	3,823	0.00
1,001 – 5,000	208	710,950	0.89
5,001 – 10,000	194	1,747,401	2.20
10,001 – 100,000	440	15,017,350	18.88
100,001 and above	71	62,075,670	78.03
Total	**926**	**79,555,194**	**100.00**

(ii) Class B Performance Shares (Escrow Exp. 15/1/2018)

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	3	168,750	1.93
100,001 and above	7	8,585,673[1]	98.07
Total	**10**	**8,754,423**	**100.00**

[1] Holders who hold more than 20% of the above securities are Graham John Hamilton Melrose and Olga Mary Melrose (6,075,000 Class B Performance Shares).

ADDITIONAL SHAREHOLDER INFORMATION cont.

(iii) Class C Performance Shares (Escrow Exp. 15/1/2018)

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	3	168,750	1.93
100,001 and above	7	8,585,673[1]	98.07
Total	**10**	**8,754,423**	**100.00**

[1] Holders who hold more than 20% of the above securities are Graham John Hamilton Melrose and Olga Mary Melrose (6,075,000 Class C Performance Shares).

(iv) Class D Performance Shares (Escrow Exp. 15/1/2018)

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	3	168,750	1.93
100,001 and above	7	8,585,673[1]	98.07
Total	**10**	**8,754,423**	**100.00**

[1] Holders who hold more than 20% of the above securities are Graham John Hamilton Melrose and Olga Mary Melrose (6,075,000 Class D Performance Shares).

6. Substantial Shareholders

The names of the substantial shareholders listed on the Company's register as at 30 September 2017 are:

- Mr Graham Melrose and Mrs Olga Melrose
  Holder of: 30,375,003
  Notice Received: 1 August 2016

ADDITIONAL SHAREHOLDER INFORMATION cont.

7. Twenty Largest Shareholders

The twenty largest shareholders of the Company's quoted securities as at 30 September 2017 are as follows:

	Name	No. of Shares	%
1	MR GRAHAM MELROSE & MS OLGA MELROSE	30,375,003	38.18
2	MR DAVID FOORD	4,575,050	5.75
3	MS MICHELE KERYN DILIZIA	2,886,061	3.63
4	MR MICHAEL AARONS <THE AARONS SUPER FUND A/C>	1,843,749	2.32
5	MR JAMES GRAHAM	1,798,561	2.26
6	MR JAMES GRAHAM <J GRAHAM FAMILY A/C>	1,781,250	2.24
7	STATE ONE STOCKBROKING LTD	1,250,000	1.57
8	CODE NOMINEES PTY LTD	1,200,000	1.51
9	MS FIONA ELIZABETH GRAHAM	1,125,000	1.41
10	QUERION PTY LTD	1,060,000	1.33
11	GOLDEN RIVERS MINING PTY LTD	878,570	1.10
12	THE AUSTRALIAN SPECIAL OPPORTUNITY FUND LP	646,793	0.81
13	ARTHUR DERYCK BRAY GRAHAM & NANETTE GRAHAM	550,000	0.69
14	MR MICHAEL AARONS <IMS PACIFIC A/C>	546,875	0.69
15	ANTARCTICA PACIFIC PTY LTD	546,875	0.69
16	MR PETER MACKIEWICZ	500,000	0.63
17	BJARK PTY LTD <THE BJARK SUPERANNUATION FUND>	375,000	0.47
18	HUGHMARUS PTY LTD <HUGH & MARY BRADLEY S/F A/C>	331,000	0.42
19	DILKARA NOMINEES PTY LTD <BMS CONSULTANTS S/FUND A/C>	330,000	0.42
20	MR CHRISTOPHER I MACKENZIE <IAIN MACKEMZIE FAMILY A/C>	300,000	0.38
	Top 20 holders of ORDINARY FULLY PAID SHARES TOTAL	**52,899,787**	**66.49**

CORPORATE DIRECTORY

Directors

Dr Graham Melrose
Executive Chairman

Michele Dilizia
Director

James Graham
Director

Company Secretary

Peter Williams

Auditor

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

Solicitor

K & L Gates
Level 31,
1 O'Connell Street
SYDNEY NSW 2000

Bankers

BankWest
1215 Hay St
PERTH WA 6000

Share Registry

Computershare
11/172 St Georges Terrace
PERTH WA 6000

Securities Exchange Listing

Australian Securities Exchange
ASX Codes: RCE, Ordinary fully paid shares

Principal Registered Office in Australia

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BENTLEY WA 6102

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