**RECCE PHARMACEUTICALS LTD**
**(formerly RECCE LTD)**
**ABN 73 124 849 065**

# Appendix 4E

Preliminary Final Report for the financial year ended 30 June 2018

Current Reporting Period: **30 June 2018**

Previous Reporting Period: **30 June 2017**

**Results for Announcement to the Market**

| | 12 months to 30 June 2018 $ | 12 months to 30 June 2017 $ | % Change |
|---|---|---|---|
| Revenue from ordinary activities | - | - | 0% |
| Loss from ordinary activities after tax attributable to members | (1,603,038) | (3,025,504) | -47% |
| Net loss for the period attributable to members | (1,603,038) | (3,025,504) | -47% |

**Brief Explanation of Results**

*Operational Report*

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

- US FDA granted Qualified Infectious Disease Product Designation ("QIDP"), a legal status under Generating Antibiotic Initiatives Now ("GAIN") Act - labelling RECCE® 327 for Fast Track regulatory process and 10 years of exclusivity post approval;
- New automated manufacturing facility in Sydney, producing at levels to support proposed Phase 1 and 2 clinical trials;
- Purchased Acquity UPLC - H Class equipment used to analyse the Group's lead compound RECCE® 327;
- Launched a Share Purchase Plan to eligible shareholders with 5,408,487 new shares issued totalling to $946,500;
- Changed the name of the Company from Recce Ltd to Recce Pharmaceuticals Ltd;
- Appointed Alistair McKeough, from Whittens & McKeough Lawyers as independent consultant Company Secretary;
- Appointed Justin Reynolds of Pitcher Partners Sydney as independent consultant CFO;
- Current focus is on progressing RECCE® 327 into human clinical trials;
- Sought for the shares to be quoted on the ASX. 34,928,832 of these shares were held by Executive Directors, following the release of 42,810,081 unquoted ordinary shares from escrow;

**Brief explanation of Results (Continued)**

*Operational Report (Continued)*

- The Company's 8,754,423 Class B, 8,754,423 Class C and 8,754,423 Class D performance shares were released from escrow. The Company will not seek quotation of these shares unless certain performance hurdles are achieved;
- The Group was awarded an Advanced Finding from the Australian Government's Department of Industry, Innovation and Science (AusIndustry). This secures a 43.5% rebate against a forecast of AU$5.6 million of overseas drug development expenditure for the financial years 30 June 2017, 30 June 2018 and 30 June 2019. This unique award extends the Australian Government's support, traditionally only applicable to locally conducted Research and Development expenditure, now further includes the Company's antibiotic development activities undertaken anywhere in the world;
- The submission of additional data to the US FDA, including expanded pre-clinical data and a proposed Phase 1 clinical trial program for the Company's lead compound RECCE® 327. The submission included a communication request, leveraging unique opportunities gained under RECCE® 327's Qualified Infectious Disease Product (QIDP) designation;
- Held a general meeting in relation to the re-election of Ms Michele Dilizia and Mr James Graham as Directors of the Company. This was for the purposes of section 250V(1) of the Corporations Act 2001.Both Directors, ceased to hold office as Directors of the Company immediately before the end of the meeting, and being eligible, were unanimously re-elected as Directors of the Company;
- Officially invited to attend a face-to-face meeting with the US FDA to discuss its unique technology and proposed clinical and regulatory pathway for its lead synthetic antibiotic compound RECCE® 327;
- Received an additional $861,590 from the Australian Government for its overseas Advanced Drug Development Expenditure in FY2017 under the Australian Government's Research and Development (R&D) Tax Incentive program;
- Appointed Dr John Prendergast to its Board as an Independent Non-Executive Director;
- Presented to a 13-member panel of FDA Division of Anti-Infective Products to discuss the proposed clinical and regulatory pathway for its lead synthetic antibiotic compound RECCE® 327; and
- The Australian Special Opportunity Fund LP ("ASOF") invested an additional $400,000 during the year and converted $300,000 of the convertible notes to equity in accordance with the Share Purchase and Convertible Security Agreement.

*Financial Report*

The operating loss for the year has reduced to $ 1,603,038 (2017: loss of $3,025,504). The major item that impacted on the reduction of the loss was the receipt of a $1,288,518 R&D incentive during the period.

The R&D campaign for the Group's new antibiotic technology was largely finalised early in the period resulting in the overall decrease in laboratory costs by $627,186 compared to the prior year.

*Financial Report (Continued)*

Other expenses increased by $393,610 which was primarily attributable to the increase in consultancy fees for legal, taxation and regulatory requirements. Finance costs increased by $51,900 due to the amortisation of the convertible notes and the impact of the early conversion of $300,000 of the convertible notes to equity.

The loss per share has decreased during the year to 1.89 cents (2017: 3.95 cents).

*Significant information relating to the Company's financial performance and financial position*

For the year ended 30 June 2018, the Group recorded a loss of $1,603,038 and had net cash outflows from operating activities of $1,732,317. The ability of the Group to continue as a going concern and be 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 Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have budgeted on a conservative basis and believe there are sufficient funds available to meet the Group's working capital requirements as at the date of this report. Based on the success of current progress in the Group, it is considered that re-financing through equity funds would be well supported. Subsequent to period end the Group expects to receive further funds via both equity and R&D tax rebates. There are a number of opportunities available to the Group, including potential international investors. The Group expects to be in better position by the end of September to determine which funding option to pursue.

The financial statements have been prepared on the basis that the Group is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business. Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern.

Refer to attached preliminary final report.

# Appendix 4E

Preliminary Final Report for the financial year ended 30 June 2018

**Dividends**

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

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

**Net Tangible Assets per Security**

| | |
|---|---|
| As at 30 June 2018 (cents) | 0.78 |
| As at 30 June 2017 (cents) | 0.76 |

**Audit of the Financial Report**

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

# RECCE PHARMACEUTICALS LTD

## (formerly RECCE LTD)

**ABN 73 124 849 065**

## PRELIMINARY FINAL REPORT (UNAUDITED)
## FOR THE YEAR ENDED 30 JUNE 2018

**RECCE PHARMACEUTICALS LTD**
**(formerly RECCE LTD)**
**ABN 73 124 849 065**

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**RECCE PHARMACEUTICALS LTD**
**(formerly RECCE LTD)**
**ABN 73 124 849 065**

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **Revenue** | 4 | - | - |
| **Other income** | 4 | 1,300,533 | 189,921 |
| **Expenses** | | | |
| Laboratory expenses | | (372,171) | (999,357) |
| Employee benefits expenses | 5 | (1,085,550) | (1,344,960) |
| Share based payments expense | 17 | - | (13,096) |
| Depreciation and amortisation expenses | | (53,119) | (25,514) |
| Net foreign exchange gains/(losses) | | - | (28,416) |
| Travel expenses | | (185,051) | (48,915) |
| Patent related costs | | (65,145) | (60,635) |
| Rental expenses | | (179,979) | (181,977) |
| Finance costs | 5 | (54,306) | (2,406) |
| Other expenses | 5 | (908,250) | (510,149) |
| | | (2,903,571) | (3,215,425) |
| **Loss before income tax** | | **(1,603,038)** | **(3,025,504)** |
| Income tax expense | 6 | - | - |
| **Loss for the year** | | **(1,603,038)** | **(3,025,504)** |
| Other comprehensive income for the year | | - | - |
| **Total comprehensive loss for the year** | | **(1,603,038)** | **(3,025,504)** |
| | | **Cents** | **Cents** |
| **Loss per share:** | | | |
| Basic loss per share for the year | 7 | (1.89) | (3.95) |
| Diluted loss per share for the period | 7 | (1.89) | (3.95) |
| **Dividends per share for the year** | | **-** | **-** |

*The accompanying notes form part of these consolidated financial statements.*

# RECCE PHARMACEUTICALS LTD
## (formerly RECCE LTD)
## ABN 73 124 849 065

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
### AS AT 30 JUNE 2018

| | Note | 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | **8** | 679,719 | 1,090,438 |
| Trade and other receivables | **9** | 20,957 | 60,185 |
| Other current assets | | 7,821 | 3,365 |
| TOTAL CURRENT ASSETS | | **708,497** | **1,153,988** |
| | | | |
| NON-CURRENT ASSETS | | | |
| Plant and equipment | **10** | 435,240 | 310,598 |
| TOTAL NON-CURRENT ASSETS | | 435,240 | **310,598** |
| | | | |
| **TOTAL ASSETS** | | **1,143,737** | **1,464,586** |
| | | | |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | **11** | 229,404 | 530,475 |
| Financial liabilities | **12** | 2,859 | - |
| Provisions for employee benefits | **13** | 184,128 | 159,820 |
| TOTAL CURRENT LIABILITIES | | 416,391 | **690,295** |
| | | | |
| NON-CURRENT LIABILITIES | | | |
| Financial liabilities | **12** | - | 161,289 |
| Provisions for employee benefits | **13** | 32,431 | 22,858 |
| TOTAL NON-CURRENT LIABILITIES | | 32,431 | **184,147** |
| | | | |
| **TOTAL LIABILITIES** | | **448,822** | **874,442** |
| | | | |
| **NET ASSETS** | | **694,915** | **590,144** |
| | | | |
| **EQUITY** | | | |
| Share capital | **14** | 10,031,509 | 8,235,009 |
| Reserves | **15** | 1,444,481 | 1,533,172 |
| Accumulated losses | | (10,781,075) | (9,178,037) |
| | | | |
| **TOTAL EQUITY** | | **694,915** | **590,144** |

*The accompanying notes form part of these consolidated financial statements.*

**RECCE PHARMACEUTICALS LTD**
**(formerly RECCE LTD)**
**ABN 73 124 849 065**

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

| | Share Capital $ | Reserves $ | Accumulated Losses $ | Total $ |
|---|---|---|---|---|
| BALANCE AT 1 JULY 2016 | 7,418,863 | 2,247,531 | (6,152,533) | 3,513,861 |
| COMPREHENSIVE INCOME: | | | | |
| Loss for the year | - | - | (3,025,504) | (3,025,504) |
| Other comprehensive income | - | - | - | - |
| | 7,418,863 | 2,247,531 | (9,178,037) | 488,357 |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS: | | | | |
| Conversion of performance shares | 796,146 | (796,146) | - | - |
| Issuance of shares | 20,000 | - | - | 20,000 |
| Option issued related to convertible notes | - | 88,691 | - | 88,691 |
| Share based payments | - | (6,904) | - | (6,904) |
| | 816,146 | (714,359) | - | 101,787 |
| **BALANCE AT 30 JUNE 2017** | **8,235,009** | **1,533,172** | **(9,178,037)** | **590,144** |
| BALANCE AT 1 JULY 2017 | 8,235,009 | 1,533,172 | (9,178,037) | 590,144 |
| COMPREHENSIVE INCOME: | | | | |
| Loss for the year | - | - | (1,603,038) | (1,603,038) |
| Other comprehensive income | - | - | - | - |
| | - | - | (1,603,038) | (1,603,038) |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS: | | | | |
| Conversion of performance shares | - | - | - | - |
| Issuance of shares | 1,796,500 | - | - | 1,796,500 |
| Conversion of convertible notes | - | (88,691) | - | (88,691) |
| Issuance of shares | - | - | - | - |
| | 1,796,500 | (88,691) | - | 1,707,809 |
| **BALANCE AT 30 JUNE 2018** | **10,031,509** | **1,444,481** | **(10,781,075)** | **694,915** |

*The accompanying notes form part of these consolidated financial statements.*

**RECCE PHARMACEUTICALS LTD**
**(formerly RECCE LTD)**
**ABN 73 124 849 065**

## CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
## FOR THE YEAR ENDED 30 JUNE 2018

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from Australian Taxation Office | | 1,288,518 | 139,295 |
| Payments to suppliers and employees | | (3,028,564) | (2,705,298) |
| Interest received | | 12,015 | 70,542 |
| Interest and other costs of finance paid | | (4,286) | (2,406) |
| NET CASH USED IN OPERATING ACTIVITIES | **16(a)** | **(1,732,317)** | **(2,497,867)** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for plant and equipment | | (177,761) | (246,079) |
| NET CASH USED IN INVESTING ACTIVITIES | | **(177,761)** | **(246,079)** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | 34,310 | 249,980 |
| Repayments of borrowings | | (31,451) | (6,978) |
| Advances from a shareholder | | 50,000 | - |
| Proceeds from issue of shares (net of costs) | | 1,446,500 | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | | **1,499,359** | **243,002** |
| | | | |
| Net decrease in cash and cash equivalents held | | (410,719) | (2,500,944) |
| | | | |
| Cash and cash equivalent at the beginning of the year | | 1,090,438 | 3,591,382 |
| | | | |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | **8** | **679,719** | **1,090,438** |
| | | | |
| **NON-CASH INVESTING AND FINANCING ACTIVITIES** | | | |
| Investing activities | **16(b)** | - | - |
| Financing activities | **16(b)** | 300,000 | 816,146 |
| | | **300,000** | **816,146** |

*The accompanying notes form part of these consolidated financial statements.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
## FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 1: CORPORATE INFORMATION

The consolidated financial statements of Recce Pharmaceuticals Ltd (formerly Recce Ltd) ("the Company") and together with its controlled entities ("the Group") for the year ended 30 June 2018.

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

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of Preparation of the Financial Report**

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001.*

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of the Company and the Group comply with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared in accordance with the significant accounting policies disclosed below as adopted by the Group. Such accounting policies are consistent with the previous 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.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise stated.

**(b) Basis of Consolidation**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Foreign Currency Translation**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Australian dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

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 subsidiaries is United States Dollars 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 Pharmaceuticals 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.

**(d) Revenue Recognition**

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

**Interest Income**

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

**Research and Development (R&D") Tax Incentive**

R&D tax incentive from the government are recognised when it is received or when the right to receive payment is established.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(e) Income Tax**

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

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

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

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

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

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

**(f) Impairment of Assets**

At the end of each reporting 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.

**(g) Cash and Cash Equivalents**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) Fair Values**

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

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

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

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

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

**(i) Trade and Other Receivables**

Trade and other 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.

**(j) Plant and Equipment**

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

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

| | |
|---|---|
| - Certain laboratory machinery and equipment | 10 - 15 years |
| - Office improvements | 3 - 8 years |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(j) Plant and Equipment (Continued)**

**Depreciation**

Depreciation is calculated on a diminishing value basis over the estimated useful life as follows:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| - Laboratory machinery and equipment | 8% - 40% |
| - Office furniture and equipment | 5% - 33% |
| - Computer equipment | 33% - 67% |
| - Library and website costs | 20% - 40% |

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

**(k) Research Expenditure**

Research costs are expensed as incurred.

**(l) Trade and Other Payables**

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

**(m) Borrowings**

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

Borrowings are derecognised from the statement of financial position when the obligation specified in the contract has been discharged, cancelled or expires. The difference between the carrying amount of the borrowing derecognised and the consideration paid is recognised in profit or loss as other income or finance costs.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**(n) Other Liabilities**

Other liabilities comprises non-current amounts due to related parties that do not bear interest and are repayable within 366 days of the end of the reporting period. As these are non-interest bearing, fair value at initial recognition requires an adjustment to discount these loans using a market-rate of interest for a similar instrument with a similar credit rating (Group's incremental borrowing rate). The discount is credited to profit or loss immediately and amortised using the effective interest method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(o) Employee Benefit Provisions**

***Short-term employee benefit obligations***

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled wholly within 12 months after the end of the reporting 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 benefits obligations***

Liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the reporting 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. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using Australian 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.

**(p) Contributed Equity**

Ordinary shares are classified as equity.

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

**(q) Share-Based Payments**

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

**(r) Earnings/(Loss) Per Share**

*Basic earnings/(loss) per share*

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company, adjusted for the after-tax effect of preference dividends on preference shares classified as equity, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(r) Earnings/(Loss) Per Share (Continued)**

*Diluted earnings/(loss) per share*

Earnings/(loss) used to calculate diluted earnings/(loss) per share are calculated by adjusting the basic earnings/(loss) by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

**(s) Goods and Services Tax (GST)**

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

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

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

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

**(t) Leases**

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

**(u) Convertible Notes and Embedded Derivatives**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
## FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(v) Derivatives and Hedging Activities**

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

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

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

The 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.

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

The following new and revised accounting standards that are mandatorily effective for the current year have been adopted by the Group:

- *AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107; and*
- *AASB 2017 2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014 2016 Cycle.*

Adoption of the above new and revised accounting standards had no material impact on the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(x) Accounting Standards Issued But Not Yet Effective**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of these new and amended pronouncements.

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

- *AASB 9 Financial Instruments, AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9* (effective date to the Group on financial year 2019).
  These Standards will replace AASB 139: Financial Instruments: Recognition and Measurement. The key changes that may affect the Group on initial application of AASB 9 and associated amending Standards include:

  - simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
  - requiring financial assets with embedded derivatives to be measured at fair value through profit or loss and not permitting embedded derivatives to be separated;
  - requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
  - introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
  - requiring impairment of financial assets carried at amortised cost to be based on an expected loss approach.

  The Company is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Company's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the consolidated financial statements when it is first adopted for the year ending 30 June 2019.

- *AASB 16: Leases* (effective date to the Group on financial year 2020).
  AASB 16 will replace AASB 117: Leases and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(x) Accounting Standards Issued But Not Yet Effective (Continued)**

(a) investment property, the lessee applies the fair value model in AASB 140: Investment Property to the right-of-use asset; or

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

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

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

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

**(y) Rounding of Amounts to Nearest Dollar**

In accordance with *ASIC Corporations (Rounding of Financial/Directors' Reports) Instrument 2016/191* , the amounts in the consolidated financial statements have been rounded to the nearest dollar.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the consolidated financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Share-based payment transactions*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Trinomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

*Impairment of non-financial assets*

The Company assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

*Share purchase facility carried at fair value through profit or loss and convertible notes carried at amortised cost*

On initial recognition the value of the convertible note 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 15(b)). Subsequently the fair value of the convertible note 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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 3: SEGMENT REPORTING

**(a) Reportable segments**

The Directors have considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board of Directors) in allocating resources and have concluded that at this time there are no separate identifiable segments as the Group operates in only one business segment being research and development of pharmaceutical drugs. However, the Group operates in two geographic segment being Australia and USA.

**(b) Segment results**

The following is an analysis of the Group's results by reportable segments:

| | Segment revenue and other income for the year | | Segment loss after tax for the year | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $ | $ | $ | $ |
| Australia | - | - | (1,021,505) | (784,680) |
| USA | - | - | (480,566) | (996,913) |
| Central Administration | 1,300,533 | 189,921 | (100,967) | (1,243,911) |
| | **1,300,533** | **189,921** | **(1,603,038)** | **(3,025,504)** |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment loss represents the loss after tax incurred by each segment. This is the measure reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance.

**(c) Segment assets and liabilities**

| | Segment assets at end of the financial year | | Segment liabilities at end of the financial year | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $ | $ | $ | $ |
| Australia | 384,503 | 220,139 | - | - |
| USA | - | - | - | - |
| Central Administration | 759,234 | 1,244,447 | 448,822 | 874,442 |
| | **1,143,737** | **1,464,586** | **448,822** | **874,442** |

**(d) Segment net assets**

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Australia | 384,503 | 220,139 |
| USA | - | - |
| Central Administration | 310,412 | 370,005 |
| | **694,915** | **590,144** |

RECCE PHARMACEUTICALS LTD
(formerly RECCE LTD)
ABN 73 124 849 065

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
## FOR THE YEAR ENDED 30 JUNE 2018

| | 2018 $ | 2017 $ |
|---|---|---|
| **NOTE 4: REVENUE AND OTHER INCOME** | | |
| **Revenue** | - | - |
| **Other Income:** | | |
| - Research and Development ("R&D") tax incentive | 1,288,518 | 139,295 |
| - Interest income | 12,015 | 50,626 |
| Total other income | **1,300,533** | **189,921** |

**NOTE 5: EXPENSES**

| | 2018 $ | 2017 $ |
|---|---|---|
| **Employee Benefits Expenses** | | |
| - Salaries and wages | 1,042,077 | 1,036,797 |
| - Superannuation expenses | 94,330 | 92,651 |
| - Long service leave expenses | 9,573 | 11,120 |
| - Payroll taxes | (64,488) | 195,868 |
| - Other employee related costs | 4,058 | 8,524 |
| Total finance costs | **1,085,550** | **1,344,960** |
| **Finance Costs:** | | |
| - Amortisation of convertible notes | 50,020 | - |
| - Interest from short-term borrowings | 2,520 | 537 |
| - Bank fees and charges | 1,766 | 1,869 |
| Total finance costs | **54,306** | **2,406** |
| **Other Expenses:** | | |
| - Audit fees | 40,348 | 33,564 |
| - Communication expenses | 7,032 | 9,122 |
| - Computer maintenance and consumables | 15,540 | 11,020 |
| - Consulting fees | 421,548 | 178,592 |
| - Insurance expenses | 34,776 | 31,974 |
| - Legal expenses | 141,401 | 146,510 |
| - Listing and regulatory fees | 71,285 | 34,850 |
| - Printing and stationery expenses | 9,938 | 8,753 |
| - Sundry expenses | 166,382 | 55,764 |
| Total other expenses | **908,250** | **510,149** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

| | 2018 $ | 2017 $ |
|---|---|---|
| **NOTE 6: INCOME TAX EXPENSE** | | |
| Loss before income tax | (1,603,038) | (3,025,504) |
| 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% (2017: 27.5%) | (440,835) | (832,014) |
| Add: | | |
| - Non-allowable items: | | |
| - Share-based payments expense | - | 3,601 |
| - Expenses subject to R&D tax incentive | 495,027 | 68 |
| - Other non-allowable items | 26,202 | - |
| Less: | | |
| - Non assessable income | (354,342) | |
| - Tax losses and deferred tax not recognised | 273,948 | 828,345 |
| **Income tax attributable to the Group** | - | - |

**Deferred tax Assets (at 27.5%)**

Net deferred tax assets of $1,794,001 (2017: $1,520,053) 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.

| | 2018 $ | 2017 $ |
|---|---|---|
| **NOTE 7: LOSS PER SHARE** | | |
| The following reflects the loss and share data used in the calculations of basic and diluted losses per share: | | |
| Loss attributable to the members of the Company | (1,603,038) | (3,025,504) |
| | **No** | **No** |
| **Weighted average number of shares** | | |
| Weighted average number of ordinary shares used in calculating basic losses per share | 84,724,249 | 76,612,604 |
| Effect of dilutive securities: | | |
| - Adjusted weighted average number of ordinary shares used in calculating diluted losses per share | - | - |
| | 84,724,249 | 76,612,604 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

| | 2018 $ | 2017 $ |
|---|---|---|
| **NOTE 7: LOSS PER SHARE (CONTINUED)** | | |
| **Loss per share (cents per share):** | | |
| Basic loss for the year attributable to the members of the Company | (1.89) | (3.95) |
| Diluted loss for the year attributable to the members of the Company | (1.89) | (3.95) |

**NOTE 8: CASH AND CASH EQUIVALENTS**

| | 2018 $ | 2017 $ |
|---|---|---|
| Cash at bank | 679,677 | 1,089,954 |
| Cash on hand | 42 | 484 |
| | **679,719** | **1,090,438** |

**NOTE 9: TRADE AND OTHER RECEIVABLES**

| | 2018 $ | 2017 $ |
|---|---|---|
| CURRENT | | |
| Sundry debtors | - | 22,329 |
| Net GST receivable | 20,957 | 37,856 |
| | **20,957** | **60,185** |

**NOTE 10: PLANT AND EQUIPMENT**

| | 2018 $ | 2017 $ |
|---|---|---|
| Laboratory machinery and equipment | | |
| - at cost | 420,258 | 247,376 |
| - accumulated depreciation | (69,594) | (27,237) |
| | **350,664** | **220,139** |
| Office furniture and equipment | | |
| - at cost | 27,609 | 25,339 |
| - accumulated depreciation | (6,309) | (4,304) |
| | **21,300** | **21,035** |
| Computer equipment | | |
| - at cost | 24,000 | 21,392 |
| - accumulated depreciation | (16,155) | (11,298) |
| | **7,845** | **10,094** |
| Office improvements | | |
| - at capitalised cost | 56,835 | 56,835 |
| - accumulated depreciation | (4,242) | (1,160) |
| | **52,593** | **55,675** |
| Library and website costs | | |
| - at cost | 7,176 | 7,176 |
| - accumulated depreciation/amortisation | (4,338) | (3,521) |
| | **2,838** | **3,655** |
| **Total plant and equipment** | **435,240** | **310,598** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 10: PLANT AND EQUIPMENT (CONTINUED)

**Reconciliations**

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the current and previous financial year are set out below:

| | Laboratory machinery and equipment | Office furniture and equipment | Computer equipment | Office improve-ments | Library and website costs | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **2018** | | | | | | |
| Beginning of the year | 220,139 | 21,035 | 10,094 | 55,675 | 3,655 | 310,598 |
| Additions | 172,882 | 2,270 | 2,609 | - | - | 177,761 |
| Disposals | - | - | - | - | - | - |
| Depreciation | (42,357) | (2,005) | (4,858) | (3,082) | (817) | (53,119) |
| End of the year | **350,664** | **21,300** | **7,845** | **52,593** | **2,838** | **435,240** |
| **2017** | | | | | | |
| Beginning of the year | 30,955 | 16,702 | 10,889 | 22,445 | 2,289 | 83,280 |
| Additions | 205,472 | 6,000 | 5,313 | 34,001 | 2,046 | 252,832 |
| Depreciation | (16,288) | (1,667) | (6,108) | (771) | (680) | (25,514) |
| End of the year | **220,139** | **21,035** | **10,094** | **55,675** | **3,655** | **310,598** |

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| **NOTE 11: TRADE AND OTHER PAYABLES** | | | |
| CURRENT | | | |
| ***Unsecured liabilities*** | | | |
| Trade payables | | 125,378 | 255,353 |
| Employee related payables | | 54,026 | 224,871 |
| Sundry creditors | | 50,000 | 50,251 |
| | | **229,404** | **530,475** |
| **NOTE 12: FINANCIAL LIABILITIES** | | | |
| CURRENT | | | |
| Loans payable | **12(a)** | **2,859** | **-** |
| NON-CURRENT | | | |
| Convertible notes | **12(b)** | **-** | **161,289** |

**(a) Loans payable**

The loans payable pertained to funding obtained by the Group which is payable in 12 monthly instalments from August 2017. The loan was obtained to pay for the Directors and Officers insurance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 12: FINANCIAL LIABILITIES (CONTINUED)**

**(b) Convertible notes**

On 16 June 2017 the Company signed a Share Purchase and Convertible Security Agreement, whereby the Company could receive over a 24 month period, up to $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 the Company 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; and
- 641,000 options, exercise price of $0.2593, expiry 21 June 2021. Refer to Note 17 for the model inputs used under the Black-Scholes option pricing model.

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:

- 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
- 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 has the option to repay in cash at 105% of the tranche amount or convertible security liability.

ASOF has the discretion to convert the convertible notes into ordinary shares or use the Conversion Collateral Capitalisation Election based on a calculation model to determine the price at conversion. Conversion Collateral Capitalisation Election pertained to the conversion amount that will be constituted in whole or in part by a reduction in the Collateral Shareholding Number which will be applied to satisfy some or all of the Conversion Amount.

In the instance where a Conversion Collateral Capitalisation Election has been made, the convertible notes will be converted by way of a reduction in the 476,000 Collateral Shares issued on 16 June 2017.

On 22 September 2017, ASOF exercised 40% of its option to convert the convertible notes to 730,460 ordinary shares at 13.69 cents per share with a value of $100,000. On 1 May 2018, the remaining 60% were exercised to be converted to 1,591,090 ordinary shares at 12.57 cents per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

| | 2018 $ | 2017 $ |
|---|---|---|
| **NOTE 13: PROVISIONS FOR EMPLOYEE BENEFITS** | | |
| CURRENT | | |
| ***Unsecured liabilities*** | | |
| Annual leave | 117,645 | 100,008 |
| Personal leave | 66,483 | 59,812 |
| | **184,128** | **159,820** |
| NON-CURRENT | | |
| Long service leave | **32,431** | **22,858** |
| **Movement of long service leave provision:** | | |
| At beginning of the year | 22,858 | 11,738 |
| Provisions made during the year | 9,573 | 11,120 |
| At end of the year | **32,431** | **22,858** |

**NOTE 14: SHARE CAPITAL**

| | 2018 $ | 2017 $ |
|---|---|---|
| Issued and fully paid ordinary shares | **10,031,509** | **8,235,009** |

Ordinary shares participated in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

**Movements in ordinary shares on issue:**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **No.** | **$** | **No.** | **$** |
| Opening balance | 78,004,500 | 8,235,009 | 72,643,872 | 7,418,863 |
| Shares issued during the period: | | | | |
| - shares issued through Share Purchase Plan[1] | 5,408,487 | 946,500 | - | - |
| - shares issued to ASOF[2] | 3,607,881 | 550,000 | 654,715 | - |
| - shares issued to employees | - | - | 103,913 | 20,000 |
| | 9,016,368 | 1,496,500 | 758,628 | 20,000 |
| Conversions during the period: | | | | |
| - Convertible notes[2] | 2,321,550 | 300,000 | - | - |
| - Class A performance shares[3] | - | - | 4,602,000 | 796,146 |
| | 2,321,550 | 300,000 | 4,602,000 | 796,146 |
| **Total**[4] | **89,342,418** | **10,031,509** | **78,004,500** | **8,235,009** |

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 14: SHARE CAPITAL (CONTINUED)

**Movements in ordinary shares on issue (Continued)**

[3]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.*

[4]At 30 June 2018, 43,959,141 ordinary shares on issue were quoted in the ASX whilst 42,810,081 ordinary shares were unquoted.

**Options from shares issued**

The Company issued the following options to ASOF as part of its Share Purchase and Convertible Security Agreement signed on 16 June 2017.

| Particulars | Issue Date | Exercise Date | Exercise Price cents | 2018 No | 2017 No |
|---|---|---|---|---|---|
| Options[1] | 16-Jun-17 | 21-Jun-21 | 25.93 | - | 641,000 |
| Tranche 1 | 19-Jul-17 | 19-Jul-20 | 21.71 | 59,880 | - |
| Tranche 2 | 06-Sep-17 | 25-Aug-20 | 18.72 | 104,167 | - |
| Tranche 3 | 29-Sep-17 | 29-Sep-20 | 17.80 | 109,569 | - |
| Tranche 4 | 02-Nov-17 | 01-Nov-20 | 20.40 | 127,470 | - |
| Tranche 5 | 01-Dec-17 | 30-Nov-20 | 20.96 | 124,069 | - |
| Tranche 6 | 17-Jan-18 | 10-Jan-21 | 19.88 | 130,804 | - |
| Tranche 7 | 16-Feb-18 | 13-Feb-21 | 19.81 | 65,617 | - |
| | | | | **721,576** | **641,000** |

[1]On 22 September 2017, ASOF exercised 40% of its option to convert the convertible notes to be to 730,460 ordinary shares at 13.69 cents per share with a value of $100,000. On 1 May 2018, the remaining 60% were exercised to be converted to 1,591,090 ordinary shares at 12.57 cents per share.

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| **NOTE 15: RESERVES** | | | |
| Performance shares reserve | **15(a)** | 1,444,481 | 1,444,481 |
| Option reserve | **15(b)** | - | 88,691 |
| Share-based payments reserve | **15(c)** | - | - |
| | | **1,444,481** | **1,533,172** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 15: RESERVES (CONTINUED)**

**(a) Performance shares reserve**

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

| | | |
|---|---|---|
| *Movements of performance shares reserve:* | | |
| At beginning of year | 1,444,481 | 2,240,627 |
| Conversion to ordinary shares (refer to Note 14) | - | (796,146) |
| At end of year | **1,444,481** | **1,444,481** |

**(b) Option reserve**

The option reserve is used to recognise the fair value of options issued on 21 June 2017 to ASOF as per the terms and conditions of the Share Purchase and Convertible Security Agreement.

641,000 options were issued to ASOF 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 $88,691. The value of the options was calculated using the Black and 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; and
- A dividend yield of 0%.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| *Movements of option shares reserve:* | | |
| At beginning of year | 88,691 | - |
| Fair value of the options on the convertible notes (refer to Note 12(b)) | - | 88,691 |
| Options exercised (refer to Note 12(b)) | (88,691) | - |
| At end of year | **-** | **88,691** |

**(c) Share-based payments reserve**

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

| | | |
|---|---|---|
| *Movements of share-based payments reserve:* | | |
| At beginning of year | - | 6,904 |
| Reversals[1] | - | (6,904) |
| At end of year | **-** | **-** |

[1]The reversal pertained to the pro-rata entitlement of the resigned Non-Executive Directors.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
## FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 16: CASH FLOW INFORMATION

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

| | 2018 $ | 2017 $ |
|---|---|---|
| Loss for the year | (1,603,038) | (3,025,504) |
| Adjustments and non-cash items: | | |
| - Depreciation and amortisation | 53,119 | 25,514 |
| - Interest amortisation of convertible notes | 50,020 | - |
| - Share-based payments expense | - | 13,096 |
| Change in operating assets and liabilities | | |
| - Decrease/(Increase) in trade and other receivables | 39,228 | (20,620) |
| - (Increase)/Decrease in other current assets | (4,456) | 3,067 |
| - (Decrease)/Increase in trade and other payables | (301,071) | 427,837 |
| - Increase in provisions for employee benefits | 33,881 | 78,743 |
| **Net cash outflow from operating activities** | **(1,732,317)** | **(2,497,867)** |

**(b) Non-cash investing and financing activities:**

| | 2018 $ | 2017 $ |
|---|---|---|
| - Investing activities | **-** | **-** |
| - Financing activities | | |
| Conversion of convertible notes to ordinary shares | 300,000 | - |
| Conversion of Class A performance shares to ordinary shares | - | 796,146 |
| Issuance of shares to employees | - | 20,000 |
| | **300,000** | **816,146** |

### NOTE 17: SHARE-BASED PAYMENTS

**Share-based payments expense recognised during the financial year:**

| | 2018 $ | 2017 $ |
|---|---|---|
| Shares not issued to non-executive directors during the year[1] | - | (6,904) |
| Shares issued to staff as "sign-on" bonus | - | 20,000 |
| | **-** | **13,096** |

[1]The amount pertained to the pro-rata accrual that was expensed for this entitlement in financial year 2016 which was reversed in financial year 2017 due to the resignation of the Non-Executive Directors.

| | 2018 $ | 2017 $ |
|---|---|---|
| **NOTE 18: RELATED PARTY TRANSACTIONS** | | |

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

**Subsidiaries**
Interests in subsidiaries are disclosed in Note 20.

| | 2018 $ | 2017 $ |
|---|---|---|
| **Key management personnel compensation** | | |
| - Short-term employee benefits | 836,678 | 880,864 |
| - Post-employment benefits | 79,485 | 83,680 |
| - Termination payments | 21,263 | - |
| - Share-based payments | - | 20,000 |
| | **937,426** | **984,544** |

**The following transactions occurred with related parties:**
*Superannuation contributions*

| | 2018 $ | 2017 $ |
|---|---|---|
| Contributions to superannuation funds on behalf of employees | **79,485** | **86,680** |

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

**NOTE 19: PARENT ENTITY INFORMATION**

The following information relates to the parent entity, Recce Pharmaceuticals Ltd, as at 30 June 2018. The information presented hereto has been prepared using accounting policies consistent with those presented in Note 2.

| | 2018 $ | 2017 $ |
|---|---|---|
| **(a) Summarised statement of financial position** | | |
| Current assets | 708,497 | 1,153,988 |
| Non-current assets | 435,240 | 310,598 |
| **Total assets** | **1,143,737** | **1,464,586** |
| | | |
| Current liabilities | 416,391 | 690,295 |
| Non-current liabilities | 32,431 | 184,147 |
| **Total liabilities** | **448,822** | **874,442** |
| | | |
| Share capital | 10,031,509 | 8,235,009 |
| Reserves | 1,444,481 | 1,533,172 |
| Accumulated losses | (10,781,075) | (9,178,037) |
| **Net Assets** | **694,915** | **590,144** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE YEAR ENDED 30 JUNE 2018

| | 2018 $ | 2017 $ |
|---|---|---|
| **NOTE 19: PARENT ENTITY INFORMATION (CONTINUED)** | | |
| **(b) Summarised consolidated statement of profit or loss and other comprehensive income** | | |
| Loss for the year | (1,603,038) | (3,025,504) |
| Other comprehensive income | - | - |
| **Total comprehensive loss for the year** | **(1,603,038)** | **(3,025,504)** |

The parent entity has no contingent liabilities as at 30 June 2018.

### NOTE 20: INTEREST IN SUBSIDIARIES

| | | Percentage Owned | |
|---|---|---|---|
| | **Country of Incorporation** | **2018 %** | **2017 %** |
| **Parent entity** | | | |
| Recce Pharmaceuticals Ltd | Australia | - | - |
| **Subsidiaries** | | | |
| Recce (USA) LLP | United States | 100 | 100 |
| Recce (UK) Limited | United Kingdom | 100 | 100 |