

ASX Appendix 4D

Half-Year Financial Report to 31 December 2019

1. Details of reporting period

| | |
|-------------------------------|---------------------------------------|
| Name of Entity | Race Oncology Limited ("the Company") |
| ABN | 61 149 318 749 |
| Reporting Period | 31 December 2019 |
| Previous Corresponding Period | 31 December 2018 |

2. Results for announcement to the market

| Key information | 31 December 2019 | 31 December 2018 | Increase/ (decrease) | Amount change \$ |
|--|------------------|---------------------|----------------------|-----------------------------|
| Revenues from ordinary activities | - | - | - | - |
| Loss for the half-year | (1,502,092) | (2,026,978) | (26%) | 524,886 |
| Total net loss for the half-year attributable to members | (1,502,092) | (2,026,978) | (26%) | 524,886 |
| | | Amount Per Security | | Franked Amount Per Security |
| Final Dividend | | Nil | | Nil |
| Interim Dividend | | Nil | | Nil |
| Previous Corresponding Period | | Nil | | Nil |
| Record Date for Determining Entitlements | | Not Applicable | | |

For further information, refer to the review of operations contained in the directors' report, which forms part of the attached condensed consolidated financial statements.

3. Net tangible asset backing

| | 31 December 2019 | 31 December 2018 |
|--|------------------|------------------|
| Net tangible backing per ordinary security | 1.27 cents | 2.52 cents |

4. Details of entities over which control has been gained or lost during the period

N/A

5. Details of Dividends

No dividend has been paid or recommended to be paid for the half-year ended 31 December 2019.

6. Details of dividend reinvestment plans

N/A

7 Details of associate and joint venture entities

N/A

8. Foreign entities

On 6 October 2017, the Company incorporated a subsidiary in Belgium, (**Race Oncology, Company Number 0682664917**). There have been no significant financial transactions through the subsidiary at 31 December 2019. On 17 December 2019, the Company incorporated a new subsidiary in Texas, USA (**Race Oncology Research, Inc**). There have been no significant financial transactions through the new subsidiary at 31 December 2019.

9. Audit

This report has been based on accounts that have been subject to an audit review. There are no items of dispute with the auditor and the audit review is not subject to qualification.



Peter Molloy
Managing Director

25 February 2020



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Corporate Directory

Directors

William Garner – Non-Executive Chairman
Peter Molloy – Managing Director
Daniel Tillett – Executive Director
Chris Ntoumenopoulos – Non-Executive Director
John Cullity – Non-Executive Director
Professor Borje Andersson – Non-Executive Director

Company Secretary

Peter Webse

Registered office

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Auditor

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PERTH WA 6000

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Securities Exchange Listing

Australian Securities Exchange Limited
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Perth, WA, 6000

ASX Code – RAC

RACE ONCOLOGY LIMITED
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DIRECTORS' REPORT

Your Directors present the financial report of the Company for the half-year ended 31 December 2019.

DIRECTORS

The names and the particulars of the Directors of the Company during the half year and to the date of this report are:

| Name | Status | Appointed |
|---------------------------|------------------------|-----------------------------|
| William Garner | Non-Executive Chairman | Appointed 1 July 2016 |
| Peter Molloy | Managing Director | Appointed 1 July 2016 |
| Chris Ntoumenopoulos | Non-Executive Director | Appointed 21 April 2016 |
| John Cullity | Non-Executive Director | Appointed 6 April 2018 |
| Daniel Tillett | Executive Director | Appointed 17 September 2019 |
| Professor Borje Andersson | Non-Executive Director | Appointed 1 February 2020 |

REVIEW OF OPERATIONS

Share Issues

On 12 July 2019, the Company issued 5,000,000 fully paid ordinary shares following the conversion of the second and final tranche of Performance Shares for Update Pharma, Inc. All of the Company's Performance Shares have now been converted into ordinary shares.

On 20 August 2019, the Company successfully completed a placement of \$1.45 million, led by prominent biotechnology investor, Dr Daniel Tillett. In relation to that placement, the Company issued 8,500,000 fully paid ordinary shares at \$0.066 each and 4,250,000 attaching options, exercisable at \$0.099, and expiring on 31 August 2021. On 27 August 2019, and in accordance with the terms of the 20 August 2019 share placement, the Company issued a further 5,000,000 fully paid ordinary shares and 2,500,000 attaching options. Further to that placement and subsequent to shareholder approval at a General Meeting, on 14 October 2019, the Company issued a further 8,409,088 fully paid ordinary shares at \$0.66 each and 4,204,542 options exercisable at \$0.099, the latter expiring on 31 August 2021.

On 25 November 2019, the Company announced the expiry of options on 22 November 2019, being 2,000,000 options exercisable at \$0.49 and 2,000,000 options exercisable at \$0.65.

On 26 November 2019 and subsequent to the General Meeting on 22 November 2019, the Company issued the following options:

- 2,500,000 options exercisable at \$0.19 each on or before 25 November 2022. The options were issued pursuant to the terms and conditions of appointment of Dr Daniel Tillett as an Executive Director of the Company; and
- 3,000,000 options exercisable at \$0.25 each on or before 25 November 2021. The options were issued to Non-Executive Directors of the Company.

On 5 December 2019, the Company issued 840,000 options to Professor Borje Andersson exercisable at \$0.18 each, on or before 5 December 2024, and vest monthly over a 12-month period.

Operations

On 25 July 2019, the Company announced that the first patient had been treated with Race's cancer drug, Bisantrene, in the trial at the Sheba Medical Center in Israel. This was an important event as it was the first time that a patient had been treated with Bisantrene in more than 25 years.

On 13 August 2019, the Company announced it had secured a new patent on Bisantrene from the United States Patent and Trademarks Office (USPTO). This was Race's third patent on Bisantrene granted in the US. The new patent covered expanded uses of Bisantrene, in particular its use in combination with other cancer drugs to treat Acute Myeloid Leukaemia (AML) and Breast Cancer.

On 17 September 2019, the Company announced that Dr Daniel Tillett had joined the Board of Directors of Race. Dr Tillett is the founder and CEO of successful Sydney-based biotechnology company, Nucleics, which specialises in DNA sequencing and genomics. On 1 October 2019, the Company further announced that Dr Tillett had been appointed Chief Scientific Officer (CSO) of Race and as a result, became an Executive Director of the Company.

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On 14 November 2019, the Company announced a new '5 Path' clinical strategy for Bisantrene. The strategy defined five pathways for clinical development of Bisantrene and greatly expanded the addressable market for Bisantrene, including beyond AML, while reducing clinical development risk.

On 5 December 2019, the Company announced Professor Borje Andersson will chair Race Oncology's Clinical Advisory Board. Associated with that appointment, the Company issued 840,000 options to Prof Andersson as detailed above.

On 16 December 2019, the Company announced it had received a \$159,371 R&D Tax Incentive refund for the 2018/2019 financial year. The R&D Tax Incentive is an important Australian Government Program that refunds up to 43.5% of eligible expenditure on research and development.

Outlook

The outlook for Race is decidedly positive. Over the half-year, the Company's prospects have been greatly buoyed by the contributions of Dr Tillett and Prof Andersson and the inception of the 5-Path strategy that now underpins the clinical development program for Bisantrene. Pre-IND meetings with the FDA are currently being planned for the two US clinical trials to be undertaken under that strategy; the investigation of Australian trial sites is also under way.

Race has achieved its goal of contemporary clinical usage of Bisantrene, with the start of the clinical trial at the Sheba Medical Center in Israel, and we look forward to reporting the results of that trial as provided by the study's Principal Investigator, Prof Arnon Nagler.

FINANCIAL PERFORMANCE

The loss for the six months ended 31 December 2019 was \$1,502,092 or \$1,004,311 excluding share-based payments, a non-cash expense. This is significantly down on the loss of \$2,026,978 (\$1,465,185 excluding share based payments) for the 31 December 2018 half-year.

At 31 December 2019, the Company had \$1,548,564 in cash reserves (compared with \$988,714 at 30 June 2019).

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 13 January 2020, the Company announced that the consulting agreement with Dr Samar Al-Behaisi (Chief Medical Officer and VP of Medical Affairs) would conclude on 20 March 2020. In line with the Company's new strategy, Race is now recruiting an Australian-based head of its clinical research activities.

On 14 January 2020, the Company announced 6,000,000 options expired exercisable at \$0.30 on 13 January 2020.

On 28 January 2020, the Company announced Professor Borje Andersson has been appointed to the Board as a Non-Executive Director effective 1 February 2020. Prof Andersson continues to be engaged as the Chair of Race's Clinical Advisory Board. The Company issued Prof Borje Andersson in lieu of his Director's fees 2,400,000 options exercisable at \$0.275 each on or before 23 January 2025 and vesting monthly over a 12 month period, with effect from 1 February 2020.

On 17 February 2020, the Company announced the highly experienced oncology clinical trials specialist, Dr Marinella Messina, as its Australian Clinical Program Director. Dr Messina will commence on 16 March 2020 and be responsible for progressing the Australian trials. On 17 February 2020, the Company issued 2,400,000 options to Dr Messina, in accordance with the Company's employee incentive plan, exercisable at \$0.49 and expiring 17 February 2024.

There have been no other matters or circumstances that have arisen since 31 December 2019.

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AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 6 of the financial report.

Signed in accordance with a resolution of directors made pursuant to s306(3) of the Corporations Act 2001.

On behalf of the Directors



Managing Director
Melbourne, Victoria
Dated: 25 February 2020

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To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the review of the financial statements of Race Oncology Limited for the half year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully



BENTLEYS
Chartered Accountants



MARK DELAURENTIS CA
Partner

Dated at Perth this 25th day of February 2020

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

| | Note | Consolidated 31 December 2019 \$ | Consolidated 31 December 2018 \$ |
|--|------|---|---|
| Revenue | | | |
| Interest received | | 2,828 | 11,466 |
| R&D tax incentive | | 159,371 | 228,501 |
| Administrative expenses | | (11,806) | (10,882) |
| Accounting and audit fees | | (41,113) | (39,783) |
| Amortisation | 2 | (140,598) | (140,598) |
| Business development and marketing | | (36,927) | (181,930) |
| R&D manufacturing and distribution | | (114,151) | (372,735) |
| Corporate advice fees | | (50,925) | (57,427) |
| Director fees | | (108,499) | (108,588) |
| Employee benefits expense | | (24,542) | (31,995) |
| Research and development expense | | (540,858) | (655,883) |
| Share based payment expense | 6 | (497,781) | (561,793) |
| Share registry expense | | (4,979) | (3,166) |
| Travel and accommodation | | (11,213) | (14,147) |
| Other expenses | | (80,899) | (88,018) |
| Results from operating activities | | (1,502,092) | (2,026,978) |
| Loss before income tax | | | |
| Income tax expense | | - | - |
| Loss for the period | | (1,502,092) | (2,026,978) |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Foreign currency translation (net of tax) | | (193) | 471 |
| Total comprehensive loss for the period net of tax | | (1,502,285) | (2,026,507) |
| Basic and diluted loss per share (cents per share) | | (1.50) | (2.62) |

The above condensed statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

| | Note | Consolidated 31 December 2019 \$ | Consolidated 30 June 2019 \$ |
|----------------------------------|------|---|---------------------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 1,548,564 | 988,714 |
| Trade and other receivables | | (365) | 611 |
| Other assets | | 56,103 | 34,762 |
| TOTAL CURRENT ASSETS | | 1,604,302 | 1,024,087 |
| NON CURRENT ASSETS | | | |
| Intangible assets | 2 | 4,077,340 | 4,217,938 |
| TOTAL NON CURRENT ASSETS | | 4,077,340 | 4,217,938 |
| TOTAL ASSETS | | 5,681,642 | 5,242,025 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 3 | 188,836 | 158,369 |
| Provision | | 32,500 | 33,750 |
| TOTAL CURRENT LIABILITIES | | 221,336 | 192,119 |
| TOTAL LIABILITIES | | 221,336 | 192,119 |
| NET ASSETS | | 5,460,306 | 5,049,906 |
| SHAREHOLDERS' EQUITY | | | |
| Issued capital | 4 | 17,837,525 | 15,422,621 |
| Reserve | 5 | 3,082,833 | 3,854,997 |
| Reserve shares | 4b | (800,000) | (800,000) |
| Accumulated losses | | (14,660,052) | (13,427,712) |
| SHAREHOLDERS' EQUITY | | 5,460,306 | 5,049,906 |

The above condensed financial position should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

| | Note | Issued Capital | Accumulated Losses | Reserves | Total |
|--|------|-------------------|---------------------|------------------|------------------|
| | | \$ | \$ | \$ | \$ |
| Balance at 1 July 2018 | | 14,456,463 | (10,810,502) | 4,284,736 | 7,930,697 |
| Loss attributable to members | | - | (2,026,978) | - | (2,026,978) |
| Other comprehensive income for the period | | - | - | 471 | 471 |
| Total comprehensive income for the period | | - | (2,026,978) | 471 | (2,026,507) |
| Transactions with owners, in their capacity as owners and other transfers | | | | | |
| Conversion of performance shares | | 1,000,000 | - | (1,000,000) | - |
| Issue of share capital net of costs | 4 | (33,842) | - | - | (33,842) |
| Share based payments | 6 | - | - | 561,793 | 561,793 |
| Extinguishment of options | 4 | - | 1,042,192 | (1,042,192) | - |
| BALANCE AT 31 DECEMBER 2018 | | 15,422,621 | (11,795,288) | 2,804,808 | 6,432,141 |

| | Note | Issued Capital | Accumulated Losses | Reserves | Total |
|--|------|-------------------|---------------------|------------------|------------------|
| | | \$ | \$ | \$ | \$ |
| Balance at 1 July 2019 | | 15,422,621 | (13,427,712) | 3,054,997 | 5,049,906 |
| Loss attributable to members | | - | (1,502,092) | - | (1,502,092) |
| Other comprehensive income for the period | | - | - | (193) | (193) |
| Total comprehensive income for the period | | - | (1,502,092) | (193) | (1,502,285) |
| Transactions with owners, in their capacity as owners and other transfers | | | | | |
| Conversion of performance shares | | 1,000,000 | - | (1,000,000) | - |
| Issue of share capital net of costs | 4 | 1,414,904 | - | - | 1,414,904 |
| Share based payments | 6 | - | - | 497,781 | 497,781 |
| Extinguishment of options | 6 | - | 269,752 | (269,752) | - |
| BALANCE AT 31 DECEMBER 2019 | | 17,837,525 | (14,660,052) | 2,282,833 | 5,460,306 |

The condensed statement of changes in equity should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

| | 31 December 2019 | 31 December 2018 |
|--|------------------|--------------------|
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Interest received | 2,828 | 11,466 |
| Research and development | 159,371 | - |
| Payments for research and development | (512,688) | (717,201) |
| Payments for business development and marketing | (29,104) | (293,843) |
| Payments for manufacturing and distribution | (122,352) | (194,180) |
| Payments to suppliers and employees | (350,337) | (391,374) |
| Net cash used in operating activities | (852,282) | (1,585,132) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net cash provided by investing activities | - | - |
| CASH FLOWS FROM FINANCING ACITIVITIES | | |
| Proceeds from shares issued | 1,445,999 | - |
| Capital raising costs | (31,095) | (33,842) |
| Net cash (used in)/provided by financing activities | 1,414,904 | (33,842) |
| Net (decrease) in cash held | 562,622 | (1,618,974) |
| Foreign currency translation | (2,772) | (12,320) |
| Cash at beginning of the period | 988,714 | 3,709,998 |
| Cash at end of the period | 1,548,564 | 2,078,704 |

The condensed statement of cash flows should be read in conjunction with the accompanying notes.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The half-year financial statements are general purpose financial statements prepared in accordance with the requirements of the *Corporations Act 2001*, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The interim financial report was issued on 25 February 2020 by the directors of the Company.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Company as in the full financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made by Race Oncology during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

b) Basis of preparation

The condensed financial statements have been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted. The financial statements have been prepared on a going concern basis.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2019 annual financial report for the financial year ended 30 June 2019, except for the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standard and with International Financial Reporting Standards.

Going Concern

The half year financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred a loss for the half year ended 31 December 2019 of \$1,502,092 (2018 loss: \$2,026,978) and net cash outflows from operating activities of \$852,282 (2018: \$1,585,132 outflows).

The ability of the consolidated entity to continue as a going concern is principally dependent upon the ability of the Company successfully raising additional capital and managing cashflows in line with available funds.

The Directors have prepared a cash flow forecast which indicates that the consolidated entity will have sufficient cash flows to meet all commitments and working capital requirements for the 12 months period from the date of signing this financial report.

Based on the cash flow forecast and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate. In particular, given the consolidated entity's history of raising capital to date, the directors are confident of the consolidated entity's ability to raise additional funds as and when they are required.

Should the consolidated entity be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the consolidated entity be unable to continue as a going concern and meet its debts as and when they fall due.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Patents

The Company made upfront payments to purchase patents. The patents have been granted for a period of 20 years by the relevant government agency.

As a result, those patents are amortised on a straight-line basis over the period of the patent.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and Amended Standards Adopted by the Group

The Group has considered the implications of new or amended Accounting Standards which have become applicable for the current financial reporting period. The Group had to change its accounting policies and make adjustments as a result of adopting the following Standard:

- AASB 16: Leases

CHANGES IN ACCOUNTING POLICIES

This note describes the nature and effect of the adoption of AASB 16: Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

As a result of the changes in the Group's accounting policies, prior year financial statements have been restated.

a. Leases

The Group as lessee

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (i.e. a lease with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expenses on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

The Group as lessor

Upon entering into each contract as a lessor, the Group assesses if the lease is a finance or operating lease.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A contract is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases not within this definition are classified as operating leases.

Rental income received from operating leases is recognised on a straight-line basis over the term of the specific lease.

Initial direct costs incurred in entering into an operating lease (for example, legal cost, costs to set up equipment) are included in the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Rental income due under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

When a contract is determined to include lease and non-lease components, the Group applies AASB 15 to allocate the consideration under the contract to each component.

b. Initial Application of AASB 16: Leases

The Group has adopted AASB 16: Leases retrospectively with the cumulative effect of initially applying AASB 16 recognised at 1 July 2019. In accordance with AASB 16 the comparatives for the 2018 reporting period have not been restated.

Based on the assessment by the Group, it was determined there was no impact on the Group. As such, the Group has not recognised a lease liability and right-of-use asset for all leases (with the exception of short-term and low-value leases) recognised as operating leases under AASB 117: Leases where the Group is the lessee.

There has been no significant change from prior year treatment for leases where the Group is a lessor.

Lease liabilities are measured at the present value of the remaining lease payments, where applicable. The Group's incremental borrowing rate as at 1 July 2019 was used to discount the lease payments.

The right-of-use assets, where applicable for the remaining leases have been measured and recognised in the statement of financial position as at 1 July 2019 by taking into consideration the lease liability and the prepaid and accrued lease payments previously recognised as at 1 July 2019 (that are related to the lease).

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Share-based payments

The value attributed to share options and remuneration shares issued is an estimate calculated using an appropriate mathematical formula based on Black-Scholes option pricing model. The choice of models and the resultant option value require assumptions to be made in relation to the likelihood and timing of the conversion of the options to shares and the value and volatility of the price of the underlying shares. Details of share-based payments assumptions are detailed in Note 6.

Amortisation of patents

Costs incurred in acquiring patents and licenses are capitalised and amortised on a straight line basis over the life of the patent. Costs include only those costs directly attributable to the acquisition of the patents and licences. The recoverability of the carrying amount of the capitalised patent costs is dependent on the ability of the Company to generate positive cash inflows from the future development and sale of its pharmaceutical products.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For the current reporting period, the Company is operated in two segments, being research into oncology drug, Bisantrone and the manufacturing and distribution of the drug for the clinical trials. Accordingly, the financial information reported elsewhere in this financial report is representative of the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.

d) Equity-settled compensation

The Company operates a supplier share and option plan. Share-based payments to suppliers are measured at the fair value of the instruments issued and amortised over the vesting periods. The fair value of performance right options is determined using the satisfaction of certain performance criteria (Performance Milestones). The number of shares option and performance rights expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. The fair value is determined using either a black-scholes or monte-carlo simulation model depending on the type of share-based payment.

NOTE 2. INTANGIBLE ASSETS

| | 31 December 19 | 30 June 19 |
|--------------------------------------|------------------------------|-------------------|
| At cost | 5,000,000 | 5,000,000 |
| Accumulated amortisation | (922,660) | (782,062) |
| Total intangible assets | 4,077,340 | 4,217,938 |
| Movement during the half-year | | |
| | Intellectual Property | |
| Balance at 1 July 2019 | 4,217,938 | |
| Amortisation expense | (140,598) | |
| Balance at 31 December 2019 | 4,077,340 | |

Intellectual property totalling \$5,000,000 comprises patents and licenses initially acquired through Update Pharma pertaining to the oncology drug, called Bisantrone. The intellectual property is supported by 2 patents and will be expire in year 2034. The patent useful life has been aligned to the patent term and as a result, those patents are amortised on a straight-line basis over the period of the patent.

NOTE 3. TRADE AND OTHER PAYABLES

| | 31 December 19 | 30 June 19 |
|---------------------------------------|-----------------------|-------------------|
| Trade and other payables | 131,296 | 100,149 |
| Accruals | 57,540 | 58,220 |
| Total trade and other payables | 188,836 | 158,369 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

| NOTE 4. ISSUED AND UNISSUED CAPITAL | 31 December 19 | 30 June 19 |
|---|-----------------------|-------------------|
| Opening balance | 15,422,621 | 14,456,463 |
| Shares issued during the half year / full year | 1,445,999 | - |
| Share issue conversion of performance shares | 1,000,000 | 1,000,000 |
| Less: transaction costs arising from issued of shares | (31,095) | (33,842) |
| | 17,837,525 | 15,422,621 |

The Company has issued share capital amounting to 109,144,901 ordinary shares (30 June 2019: 82,235,813 ordinary shares) of no par value and the Company does not have a limited amount of authorised capital.

a. Ordinary shares – Fully Paid

| | No. of shares | |
|-------------------------------|-----------------------|-------------------|
| | 31 December 19 | 30 June 19 |
| At beginning of year | 82,235,813 | 75,735,813 |
| Shares issued during the year | 26,909,088 | 6,500,000 |
| At end of the period/year | 109,144,901 | 82,235,813 |

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. Reserve Shares

| | Date | Quantity | Unit Price \$ | Total \$ |
|------------------------------|-------------|-----------------|----------------------|-----------------|
| Reserve shares (loan shares) | 1 July 2016 | 4,000,000 | \$0.20 | 800,000 |
| Balance at 31 December 2019 | | 4,000,000 | | 800,000 |

| NOTE 5. RESERVE | 31 December 19 | 30 June 19 |
|--|-----------------------|-------------------|
| Opening balance | | |
| Foreign currency translation (net of tax) | 3,854,997 | 5,084,736 |
| Share based payment – reassessment of performance shares | (193) | 411 |
| Conversion of performance shares | 5a (1,000,000) | (1,000,000) |
| Share based payment expense | 6 497,781 | 812,042 |
| Options lapsed | (269,752) | (1,042,192) |
| Closing balance | 3,082,833 | 3,854,997 |

a. Performance Shares Issued

On 1 July 2016, as part of the consideration for the acquisition of intellectual property of Update Pharma, the Company agreed to issue 10,000,000 performance shares to the vendor upon satisfaction of the following milestones:

- (i) 5,000,000 performance shares to convert upon the Company satisfying the following milestones within a period of 24 months from the date of issue of the performance share
 - (a) The Company having received approval under section 505(b)(2) of the Federal Food, Drug, and Cosmetic Act 1938 which allows the use of information from historical clinical trials not conducted by the Company or Update Pharma; and

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NOTE 5. RESERVE (continued)

- (b) The Company having received approval for, and commenced a bridging study on a medical product to extrapolate foreign clinical trial data on safety, efficacy and dose response within a new region; and
- (c) 5,000,000 Performance shares to convert if, within a period of 24 months from the date of issue of the Performance shares, the Company has received approval to distribute unauthorised medications to physicians and named patients with unmet medical needs under an early access program.

Any performance shares not converted into a share within 3 years from the issue date would be automatically redeemed by the Company for a sum of \$0.0000001 per performance share within 10 business days.

An undiscounted grant date fair value of \$0.20 per performance share has been attributable to the instruments being the Initial Public Offer price of the Company's shares.

On 20 June 2018 the Performance shares were varied as approved by shareholders in a general meeting to give commercial effect to what was agreed when the terms were initially agreed to. The revised milestones in respect of the Performance Shares were as follows:

- (i) 5,000,000 Performance Shares shall convert upon the Company, within a period of 24 months from the date of issue of the Performance Shares, having received advice from the FDA that the Company may use information from historical clinical trials conducted by third parties in connection with the development and approval of Bisantrone under section 505(b)(2) of the FFDC Act; and
- (ii) 5,000,000 Performance Shares shall convert if, with a period of 24 months from the date of issue of the Performance Shares, the company has received approval to distribute unauthorised medication to physicians and named patients with unmet medical needs under an early access program.

The Company's Board has received legal advice that the tranche (i) and (ii) milestones were satisfied before 30 June 2018.

The satisfaction of the milestones met within the vesting period resulted in the full value of \$2,000,000 attributed to the performance shares which has been capitalised as an intangible asset, with the additional \$500,000 capitalised during the year ended 30 June 2018, increasing the existing \$1,500,000 value capitalised from the performance shares.

On 21 December 2018 the Company issued 5,000,000 fully paid ordinary shares following the conversion of Milestone (i) Performance Shares. The remaining 5,000,000 performance shares were converted into fully paid ordinary shares on the 12 July 2019. All of the Company's Performance Shares have now been converted into ordinary shares.

NOTE 6. SHARE-BASED PAYMENTS

The following share based payments occurred during the half year ending 31 December 2019:

On 22 November 2017, the Company issued the following options:

- a) 2,000,000 unlisted options exercisable at \$0.49 and expiring 22 November 2019. 1,000,000 options were issued to each of the two Directors, Mr Chris Ntoumenopoulos and Dr Brendan De Kauwe.
- b) 2,000,000 unlisted options exercisable at \$0.65 and expiring 22 November 2019. 1,000,000 options were issued to each of the two Directors, Mr Chris Ntoumenopoulos and Dr Brendan De Kauwe.

The 1,000,000 options exercisable at \$0.49 and 1,000,000 options exercisable at \$0.65 for Brendan De Kauwe lapsed on 4 April 2018 as the Director resigned, however new options were issued on the same terms and condition on 27 November 2018 following approval at the Company's AGM. All of the 4,000,000 options expired on the 22 November 2019.

On 20 August 2019 announced the completion of placement which resulted in a total of 10,954,542 options issued as follows:

- (a) On 20 August 2019, the Company issued 4,250,000 options exercisable at \$0.099 and expiring on 31 August 2021.
- (b) On 27 August 2019, the Company 2,500,00 options exercisable at \$0.099 and expiring on 31 August 2021.
- (c) On 14 October 2019, the Company issued 4,204,542 options exercisable at \$0.099 and expiring on 31 August 2021.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 6. SHARE-BASED PAYMENTS (continued)

On 26 November 2019, the Company issued the following options:

- 2,500,000 options exercisable at \$0.19 each on or before 25 November 2022. These options were issued pursuant to the terms and conditions of appointment of Dr Daniel Tillett an Executive Director of the Company; and
- 3,000,000 options exercisable at \$0.25 each on or before 25 November 2021. These options were issued to Non-Executive Directors of the Company.

On 5 December 2019, the Company issued 840,000 options exercisable at \$0.18 each on or before 5 December 2024, vesting monthly over a 12-month period. The options were issued to Professor Borje Andersson in recognition of services to be provided by him in relation to the Clinical Advisory Board.

No options were exercised during the half year.

Fair value of options

The fair value of share options granted have been valued using a Black Scholes Methodology, taking into account the terms and conditions upon which the unlisted share options were granted.

A summary of the inputs used in the valuation of the options is as follows:

| Unlisted Share Options | Daniel Tillett Options | Director Options | Borje Andersson Options |
|-------------------------------|-----------------------------------|-------------------------|------------------------------------|
| Exercise price | \$0.19 | \$0.25 | \$0.18 |
| Share price at date of issue | \$0.14 | \$0.14 | \$0.16 |
| Grant date | 26 Nov 19 | 26 Nov 19 | 5 Dec 19 |
| Expected volatility | 100% | 100% | 100% |
| Expiry date | 25 Nov 22 | 25 Nov 21 | 5 Dec 24 |
| Risk free interest rate | 0.73% | 0.76% | 0.76% |
| Value per option | \$0.0784 | \$0.0542 | \$0.1122 |
| Number of options | 2,500,000 | 3,000,000 | 840,000 |
| Total value of options | \$196,001 | \$162,625 | \$94,241 |

During the half year end 31 December 2019, a share based payment expense of \$497,781 was recognised, which included options vesting from prior periods.

NOTE 7. CONTINGENT LIABILITIES

There are no contingent liabilities.

NOTE 8. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of trade and other receivables, deposits paid, trade and other payables, and financial liabilities. These financial instruments are measured at amortised cost, less any provision for non-recovery. The carrying amounts of the financial assets and liabilities approximate their fair value.

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NOTE 9. SUBSEQUENT EVENTS

On 13 January 2020, the Company announced that the consulting agreement with Dr Samar Al-Behaisi (Chief Medical Officer and VP of Medical Affairs) would conclude on 20 March 2020. In line with the Company's new strategy, Race is now recruiting an Australian-based head of its clinical research activities.

On 14 January 2020, the Company announced 6,000,000 options expired exercisable at \$0.30 on 13 January 2020.

On 28 January 2020, the Company announced Professor Borje Andersson has been appointed to the Board as a Non-Executive Director effective 1 February 2020. Prof Andersson continues to be engaged as the Chair of Race's Clinical Advisory Board. The Company issued Prof Borje Andersson in lieu of his Director's fees 2,400,000 options exercisable at \$0.275 each on or before 23 January 2025 and vesting monthly over a 12 month period, with effect from 1 February 2020.

On 17 February 2020, the Company announced the highly experienced oncology clinical trials specialist, Dr Marinella Messina, as its Australian Clinical Program Director. Dr Messina will commence on 16 March 2020 and be responsible for progressing the Australian trials. On 17 February 2020, the Company issued 2,400,000 options to Dr Messina, in accordance with the Company's employee incentive plan, exercisable at \$0.49 and expiring 17 February 2024.

There have been no other matters or circumstances that have arisen since 31 December 2019.

NOTE 10. RELATED PARTY TRANSACTIONS

The related party transactions of the half-year financial report are consistent with those adopted and disclosed in the Company's 2019 annual financial report for the financial year ended 30 June 2019 except for the share based payments as disclosed in note 6.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with the accounting standards and giving true and fair view of the financial position as at 31 December 2019 and its performance for the half-year then ended.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Managing Director
Melbourne, Victoria
Dated: 25 February 2020

Independent Auditor's Review Report

To the Members of Race Oncology Limited

We have reviewed the accompanying half-year financial report of Race Oncology Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled during the half-year.

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Directors Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent Auditor's Review Report

To the Members of Race Oncology Limited *(Continued)*



Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Race Oncology Limited and Controlled Entities is not in accordance with the Corporations Act 2001 including:

- a. Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material Uncertainty Related to Going Concern

We draw attention to Note 1(b) in the financial report, which indicates that the Consolidated Entity incurred a net loss of \$1,502,092 during the half year ended 31 December 2019. As stated in Note 1(b), these events or conditions, along with other matters as set forth in Note 1(b), indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

A handwritten signature in blue ink that reads "Bentleys".

BENTLEYS
Chartered Accountants

A handwritten signature in blue ink that reads "Mark DeLaurentis".

MARK DELAURENTIS CA
Partner

Dated at Perth this 25th day of February 2020