

Appendix 4D

Current Reporting Period: 31 December 2020

Previous Reporting Period: 31 December 2019

Results for Announcement to the Market

| | | Percentage Change | | \$ |
|--|----|----------------------|----|--------------|
| Revenue from ordinary activities | - | 0.00% | to | - |
| Loss from ordinary activities after tax attributable to members | up | 665.28% | to | (10,191,904) |
| Net loss for the period attributable to members | up | 665.28% | to | (10,191,904) |

Brief explanation of Results

Operational Report

During the reporting period, significant advances were made in support of the development of the Company's synthetic anti-infective program. Highlights for the half year to 31 December 2020 included:

- Successful placement of \$27.9m (before costs) in fully paid ordinary shares at \$1.30 per share
- Expansion of wholly owned patent estate - Patent Family 3 Grants in Japan
- Intravenous Phase I Human Clinical Trial progressing well, and patient screening expected to take place in quarter 1 of 2021
- Topical Phase I/II Human Clinical Trial submission has received Human Research Ethics Approval with first patent treatment anticipated in quarter 1 of 2021
- Ethics Committee approval received for the first pre-clinical animal studies to assess potential of RECCE®435 for the treatment of Helicobacter Pylori Gastric infection at Murdoch Children's Research Institute
- Encouraging results from SARS-Cov-2 studies both in Australia and the United States

Appendix 4D

Clinical progress

The Company continued to validate and expand upon the potential of its synthetic anti-infectives with additional data from regulatory recognised pre-clinical models against emerging viral pathogens and a broad range of bacteria.

The company's lead antibiotic candidate, RECCE® 327, had significant antibacterial activity against Methicillin-resistant *S. aureus*, or MRSA, in the previous pre-clinical topical burn study in rats. RECCE® 327 reduced the bacterial load and showed a higher percentage of wound closure compared to the best-in-class antibiotic. On this compelling pre-clinical data, the Company formalized an agreement with Fiona Stanley Hospital for a Phase I/II clinical trial to assess the safety and efficacy of RECCE® 327 as a broad-spectrum spray-on antibiotic for patients with Gram-positive and Gram-negative bacterial burn wound infections.

Building upon previous anti-viral capabilities seen against Influenza A, RECCE® 327 was selected for study in the Priority 1 candidate group for the Antiviral SARS-CoV-2 Screening Program Agreement with leading Australian research agencies.

Recce expanded its anti-infective pipeline with RECCE® 529, a new synthetic polymer formulation with an enhanced affinity for protein-based viruses. In parallel to the Australian program, international studies evaluated anti-viral activity of RECCE® 327 and RECCE® 529 in an ex-vivo respiratory organoid model system for its potential effectiveness against SARS-CoV-2. Both anti-infective compounds demonstrated positive, dose-dependent reductions against SARS-CoV-2 infection. Further results from its international SARS-CoV-2 in-vivo studies, confirmed positive activity of RECCE® 327 and RECCE® 529 against the SARS-CoV-2 virus in Syrian golden hamsters.

In addition, RECCE® 435 developed another broad-spectrum polymer antibiotic specifically formulated for oral use for the treatment of *Helicobacter Pylori* (*H. Pylori*) infections. Animal studies showed positive efficacy activity against *H. Pylori* bacteria in rats treated with RECCE® 435 and a favourable toxicity profile in a related study demonstrating its potential to address infections caused by digestive bacteria. Additionally, the Company is working with Murdoch Children's Research Institute (MCRI) on a preclinical program to evaluate in-vivo antimicrobial activity against *H. Pylori*. The program, led by *H. Pylori* infectious disease expert Professor Philip Sutton, has a particular focus on optimal dosing and the effect of RECCE® 435.

The Company further announced it selected South Australia's CMAX Clinical Research as the independent trial facility which will conduct a Phase I clinical study of its lead compound, RECCE® 327. This first-in-human clinical study aims to evaluate safety, tolerability, pharmacokinetic and pharmacodynamic properties of RECCE® 327 via intravenous administration in up to 40 healthy subjects. We look forward to providing updates as these programs advance.

Strong financial position

The Company's cash position of \$23.6 million at 31 December 2020 combined with significant accrued research and development rebate credits means Recce Pharmaceuticals is sufficiently funded to execute its development milestones through the 2021 financial year.

The Company's vision is to help address the urgent global health threat of antibiotic resistant superbugs and emerging viral pathogens. The team at Recce Pharmaceuticals will continue to embark on programs that bring that vision to reality.

Financial Report

The half-year operating loss for the period was \$10,191,904 (2019: loss of \$1,331,787). The increase was as a result of increased R&D related costs and share based payment expenses.

The share based payments are non-cash costs.

The loss per share for the period was 7.68 cents (2019: 1.12 cents).

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 period and has not declared a dividend since the end of the financial period.

Net Tangible Assets per Security

| | |
|--------------------------------|-------|
| As at 31 December 2020 (cents) | 13.43 |
| As at 31 December 2019 (cents) | 3.52 |

The half year report is based on accounts that have been subject to an audit review and there is no dispute or qualification with the auditors in relation to these accounts.



RECCE PHARMACEUTICALS LTD

ABN 73 124 849 065

INTERIM REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

TABLE OF CONTENTS

| | PAGE |
|---|-------------|
| 1 Directors' Report | 1 |
| 2 Auditor's Independence Declaration | 5 |
| 3 Consolidated Statement of Profit or Loss and Other Comprehensive Income | 6 |
| 4 Consolidated Statement of Financial Position | 7 |
| 5 Consolidated Statement of Changes in Equity | 8 |
| 6 Consolidated Statement of Cash Flows | 9 |
| 7 Notes to the Consolidated Financial Statements | 10 |
| 8 Declaration by Directors | 19 |
| 9 Independent Auditor's Review Report | 20 |

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

The Directors present their report together with the interim consolidated financial report of Recce Pharmaceuticals Ltd (the "Company") and controlled entities (the "Group") for the half-year ended 31 December 2020.

Directors

The following persons held office as Directors of the Company during the half-year and up to the date of this report:

| | |
|---------------------|---|
| Dr John Prendergast | Non-Executive Chairman |
| Dr Graham Melrose | Executive Director (resigned 3 July 2020) |
| Dr Alan Dunton | Non-Executive Director (appointed 12 July 2020) |
| Mr James Graham | Chief Executive Officer (appointed 1 August 2020) |
| Ms Michele Dilizia | Chief Scientific Officer and Executive Director |
| Dr Justin Ward | Executive Director |

Principal Activity

The Group is pioneering the development and commercialisation of a drug discovery and development business commercialising new classes of synthetic anti-infectives with broad spectrum activity designed to address the urgent global health threat of antibiotic resistant superbugs and emerging viral pathogens. Its patented lead candidate, RECCE® 327 has been developed for the treatment of blood infections and sepsis derived from E. coli and S. aureus bacteria - including their superbug forms.

Review of Operations

On 3 July 2020, the Company announced the completion of Dr. Graham Melrose's executive service agreement as Chief Research Officer and his resignation as Executive Director from the Board.

On 8 July 2020, the Company announced it had entered into an Antiviral SARS-CoV-2 Screening Program Agreement, with a scientific Australian Government agency and a world class institute focused on infection and immunity following their selection of RECCE® 327 and RECCE® 529 in the Priority 1 candidate group. This was subsequently amended on 20 July 2020 to exclude RECCE® 529.

On 14 July 2020, the Company announced the appointment of Alan W. Dunton, M.D., to its Board of Directors as an independent Non-Executive Director and as a member of the Company's Audit & Risk and Remuneration & Nomination Committees.

On 16 July 2020, the Company announced it had entered into an agreement with Path BioAnalytics Inc, a precision medicine company based in Durham, North Carolina, USA, for the study of RECCE® 327 and RECCE® 529 against SARS-CoV-2.

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

On 23 July 2020, the Company announced that it was be delivering the Opening R&D Address at the World Anti-Microbial Resistance Congress on the 8th – 9th October 2020. Due to the global pandemic, the conference was held virtually.

On 4 August 2020, the Company announced positive efficacy activity against *Helicobacter pylori* (*H. pylori*) bacteria in rats treated with new anti-infective RECCE® 435, including a favourable toxicity profile in a related study. RECCE® 435 is a synthetic polymer anti-infective formulated for oral use.

On 17 August 2020, the Company announced that the milestone associated with 7,398,174 of the Company's Class D Unquoted Performance Shares (Eligible Shares) had been achieved.

On 21 August 2020, the Company announced the appointment of Professor Philip Sutton to their Clinical Advisory Committee and Head of the *Helicobacter pylori* stomach bacteria development program.

On 28 August 2020, the Company announced that the Board of Directors has unanimously appointed James Graham to the role of Chief Executive Officer.

On 1 September 2020, the Company announced that it had received an Innovation Connections grant of A\$37,508 plus GST, under the Australian Government's Entrepreneurs' Programme.

On 8 September 2020, the Company announced an update on its international SARS-CoV-2 in-vitro (organoid) studies undertaken by Path BioAnalytics and The University of Tennessee Health Science Centre. Data indicated concentration-dependent reductions from baseline of the SARS-CoV-2 virus by RECCE® 327 and RECCE® 529 as compared to a control group. The SARS-CoV-2 virus is the cause of the global COVID-19 pandemic. The concentrations utilised were far lower than the suite of pre-clinical data on RECCE® 327 intravenous infusion program.

On 10 September 2020, the Company announced selection of South Australia's CMAX Clinical Research as the independent trial facility which will conduct a Phase I clinical study of its lead compound RECCE® 327.

On 23 September 2020, the Company announced it had raised A\$27,950,000 (before costs) in a placement to institutional, professional and sophisticated investors that resulted in 21,500,000 fully paid ordinary shares being issued at A\$1.30 per share.

On 30 September 2020, the Company announced it had entered into an agreement with the Murdoch Children's Research Institute to conduct pre-clinical studies assessing the potential of RECCE® 435 for the treatment of *Helicobacter pylori* infections.

On 30 September 2020, the Company announced that the Board of Directors had unanimously appointed Michele Dilizia to the role of Chief Scientific Officer. Ms Dilizia will also continue her role as Executive Director and as member of the Board of Directors.

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

On 5 October 2020, the Company announced the cash receipt of A\$640,049 Research and Development Tax Incentive rebate from the Australian Tax Office for the year ending 30 June 2020.

On 16 October 2020, the Company announced it had received Human Research Ethics Committee approval to start a Phase I/II topical clinical trial of its synthetic anti-infective RECCE® 327 for patients with infected burn wounds.

On 10 November 2020, the Company announced encouraging results from their domestically based Antiviral SARS-CoV-2 Screening Program showing RECCE® 327 had encouraging inhibition of the SARS-CoV-2 virus.

On 23 November 2020, the Company announced the Japan Patent Office had granted Patent Family 3 titled "Anti-virus Agent and Method for Treatment of Viral Infection", furthering marketing and manufacturing monopolies to February 2037.

On 26 November 2020, the Company announced the award of an Advanced Overseas Finding for AU\$17,150,000 of Synthetic Antibiotic Research & Development applicable expenditure by AusIndustry (a division of the Australian Government's Department of Industry, Innovation and Science).

On 8 December 2020, the Company announced the award of an Advanced Overseas Finding for AU\$9,637,500 of Synthetic Anti-Viral Research & Development (R&D) applicable expenditure by AusIndustry (a division of the Australian Government's Department of Industry, Innovation and Science) - AU\$26,787,500 across infectious disease portfolio.

On 23 December 2020, the Company announced results from its international SARS-CoV-2 in-vivo studies, demonstrating positive activity of RECCE® 327 and RECCE® 529 against the SARS-CoV-2 virus in Syrian golden hamsters.

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

Results of Operations

The half-year operating loss for the period was \$10,191,904 (2019: loss of \$1,331,787). The increase was as a result of increased R&D related costs and share based payments. The Group's current focus is on progressing RECCE® 327 into human clinical trials.

Events Subsequent to Reporting Period

On 2 February 2021 the Company received \$925,981 as part of the Research and Development Tax Incentive rebate.

Subsequent to period end the Company granted 765,000 options to employees under the Company's Employee Incentive Plan which were issued on 22 February 2021 (refer to the lodged Appendix 3G for further details).

Other than the above, no other matters or circumstances have arisen since the end of the financial period, which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or state of affairs of the Group in future financial periods.

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the Directors' Report have been rounded to the nearest dollar, unless otherwise

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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

A handwritten signature in black ink that reads "John Prendergast".

Dr John Prendergast
Non-Executive Chairman
25 February 2021

DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF RECCE PHARMACEUTICALS LTD

As lead auditor for the review of Recce Pharmaceuticals Ltd for the half-year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

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

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



Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 25 February 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

| | Note | 31 December 2020 | 31 December 2019 |
|--|------|---------------------|---------------------|
| | | \$ | \$ |
| Revenue | | - | - |
| Other income | | | |
| Research and Development ("R&D") tax incentive | | 640,049 | 1,071,727 |
| Interest income | | 36,587 | 9,267 |
| Other income - cashflow boost | | 55,000 | - |
| | | <u>731,636</u> | <u>1,080,994</u> |
| Expenses | | | |
| Laboratory expenses | | (3,876,549) | (725,834) |
| Employee benefits expenses | | (1,012,550) | (677,119) |
| Depreciation and amortisation expenses | | (29,582) | (25,341) |
| Share based payments expense | 16 | (4,732,069) | (32,999) |
| Travel expenses | | (2,245) | (166,487) |
| Patent related costs | | (42,220) | (43,631) |
| Rental outgoing expenses | | (14,548) | (32,097) |
| Finance costs | | (1,279) | (44,961) |
| Professional services | | (413,699) | (208,439) |
| Other expenses | | (733,812) | (374,231) |
| Amortisation: Leases | | (61,025) | (75,054) |
| Interest expenses: Leases | | (3,962) | (6,589) |
| | | <u>(10,923,540)</u> | <u>(2,412,781)</u> |
| Loss before income tax | | (10,191,904) | (1,331,787) |
| Income tax expense | | - | - |
| Loss for the period after income tax | | (10,191,904) | (1,331,787) |
| Other comprehensive income | | - | - |
| Total comprehensive loss for the period | | (10,191,904) | (1,331,787) |
| | | | |
| | | Cents | Cents |
| Loss per share: | | | |
| Basic loss per share for the period | 6 | (7.68) | (1.12) |
| Diluted loss per share for the period | 6 | (7.68) | (1.12) |
| Dividends per share for the period | 7 | - | - |

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

| | Note | 31 December 2020 | 30 June 2020 |
|--------------------------------------|------|---------------------|------------------|
| | | \$ | \$ |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 8 | 23,599,293 | 2,633,122 |
| Trade and other receivables | | 375,364 | 41,364 |
| Other current assets | 9 | 118,149 | 64,918 |
| TOTAL CURRENT ASSETS | | 24,092,806 | 2,739,404 |
| NON-CURRENT ASSETS | | | |
| Plant and equipment | 10 | 401,671 | 424,316 |
| Right of Use Asset | 11 | 234,914 | 80,387 |
| TOTAL NON-CURRENT ASSETS | | 636,585 | 504,703 |
| TOTAL ASSETS | | 24,729,391 | 3,244,107 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and Other Payables | 12 | 811,967 | 495,499 |
| Provisions for employee benefits | | 273,654 | 306,493 |
| Current lease liabilities | | 196,292 | 83,235 |
| TOTAL CURRENT LIABILITIES | | 1,281,913 | 885,227 |
| NON-CURRENT LIABILITIES | | | |
| Non-current lease liabilities | | 42,347 | - |
| Provisions for employee benefits | | 73,944 | 46,301 |
| TOTAL NON-CURRENT LIABILITIES | | 116,291 | 46,301 |
| TOTAL LIABILITIES | | 1,398,204 | 931,528 |
| NET ASSETS | | 23,331,187 | 2,312,579 |
| EQUITY | | | |
| Share capital | 13 | 43,214,134 | 18,466,336 |
| Reserves | 14 | 8,267,216 | 1,804,502 |
| Accumulated losses | | (28,150,163) | (17,958,259) |
| TOTAL EQUITY | | 23,331,187 | 2,312,579 |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

| | Share Capital \$ | Reserves \$ | Accumulated Losses \$ | Total \$ |
|--|--------------------------|-------------------------|-----------------------------|--------------------------|
| BALANCE AT 1 JULY 2019 | 11,573,369 | 1,662,549 | (13,641,522) | (405,604) |
| COMPREHENSIVE INCOME: | | | | |
| Loss for the period | - | - | (1,331,787) | (1,331,787) |
| Other comprehensive income | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>(1,331,787)</u> | <u>(1,331,787)</u> |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS: | | | | |
| Issuance of shares (net of cash-settled share issue costs) | 6,421,064 | - | - | 6,421,064 |
| Issuance of shares (Acuity Placement Deed) | - | - | - | - |
| Options cost expense on placement | (426,407) | 426,407 | - | - |
| Conversion of options into ordinary shares | - | - | - | - |
| Share-based payments | 32,999 | - | - | 32,999 |
| Transfers from reserves to share capital | 71,250 | (71,250) | - | - |
| | <u>6,098,906</u> | <u>355,157</u> | <u>-</u> | <u>6,454,063</u> |
| BALANCE AT 31 DECEMBER 2019 | <u>17,672,275</u> | <u>2,017,706</u> | <u>(14,973,309)</u> | <u>4,716,672</u> |
| BALANCE AT 1 JULY 2020 | 18,466,336 | 1,804,502 | (17,958,259) | 2,312,579 |
| COMPREHENSIVE INCOME: | | | | |
| Loss for the period | - | - | (10,191,904) | (10,191,904) |
| Other comprehensive income | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>(10,191,904)</u> | <u>(10,191,904)</u> |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS: | | | | |
| Issuance of shares (net of cash-settled share issue costs) (Note 13) | 26,231,325 | - | - | 26,231,325 |
| Options issued to Directors | - | 4,665,169 | - | 4,665,169 |
| Options issued to lead manager as capital raising cost | (3,018,244) | 3,018,244 | - | - |
| Conversion of options into ordinary shares | 247,118 | - | - | 247,118 |
| Share-based payments | 66,900 | - | - | 66,900 |
| Transfers from reserves to share capital | 1,220,699 | (1,220,699) | - | - |
| | <u>24,747,798</u> | <u>6,462,714</u> | <u>-</u> | <u>31,210,512</u> |
| BALANCE AT 31 DECEMBER 2020 | <u>43,214,134</u> | <u>8,267,216</u> | <u>(28,150,163)</u> | <u>23,331,187</u> |

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

| | 31 December | 31 December |
|---|--------------------|--------------------|
| | 2020 | 2019 |
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Australian Taxation Office | 695,047 | 1,071,727 |
| Payments to suppliers and employees | (6,049,927) | (2,452,162) |
| Interest received | 36,587 | 9,267 |
| Interest and other costs of finance paid | - | (44,961) |
| NET CASH USED IN OPERATING ACTIVITIES | (5,318,293) | (1,416,129) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of plant and equipment | (6,937) | (5,827) |
| Lease related payments | (41,161) | - |
| NET CASH USED IN INVESTING ACTIVITIES | (48,098) | (5,827) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayments of loans | - | (737,408) |
| Proceeds from issue of equity securities | 27,950,000 | 6,768,444 |
| Proceeds from exercise of options | 101,237 | - |
| Transaction costs related to issues of equity or convertible securities | (1,718,675) | (347,380) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 26,332,562 | 5,683,656 |
| Net increase in cash and cash equivalents held | 20,966,171 | 4,261,700 |
| Cash and cash equivalent at the beginning of the period | 2,633,122 | 403,384 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 23,599,293 | 4,665,084 |

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 1: GENERAL INFORMATION

The consolidated financial report of Recce Pharmaceuticals Ltd (the "Company") and its controlled entities (the "Group") for the half year ended 31 December 2020 was authorised for issue in accordance with a resolution of the Directors on 25 February 2021.

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

NOTE 2: ACCOUNTING POLICIES

(a) Basis of preparation of the consolidated financial report

These financial statements are general purpose financial statements for the half year ended 31 December 2020 have been prepared in accordance with Australian Accounting Standards 134 Interim Financial Reporting and the Corporations Act 2001.

The half year consolidated financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report. Accordingly, the half-year consolidated financial report should be read in conjunction with the annual report for the year ended 30 June 2020 and considered together with any public announcements made by the Company during the half year ended 31 December 2020 in accordance with the continuous disclosure obligations of the ASX Listing Rules and the Corporations Act 2001.

Historical Cost Convention

The consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(b) Adoption of new and revised standards

The Group has reviewed all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current half-year. The Group has also reviewed all standards and interpretations that have been issued but are not yet effective for the half-year ended 31 December 2020. As a result of this review, the Directors have determined that there is no material impact on the Group and, therefore no material change is necessary to Group accounting policies.

(c) 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 report have been rounded to the nearest dollar.

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the consolidated financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments, 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 judgments and estimates will seldom equal the related actual results. The judgments, 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. At 31 December 2020, no deferred tax assets on temporary differences and carry forward losses were recognised.

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 year but may impact profit or loss and equity.

Performance Shares

The Class B performance shares convert into fully paid ordinary shares on the achievement of the milestone whereby the Company is awarded the US Food and Drug Administration (FDA) Investigational Drug (IND) status (or European equivalent – European Medicines Agency (EMA)) on or before 19 August 2020.

The milestone was not met and the shares did not convert.

NOTE 4: GOING CONCERN

For the half-year ended 31 December 2020 the Group recorded a loss of \$10,191,904 (2019: \$1,331,787) and had net cash outflows from operating activities of \$5,318,293 (2019: \$1,416,129). On 30 September 2020 the Company raised \$27.95 million from the issue of 21.5 million ordinary shares at \$1.30 (before capital raising costs). The Group currently has sufficient cash resources to fund its operations for the foreseeable future. The directors have reviewed the Group's financial position and are of the opinion that there are sufficient funds to meet the Group's working capital requirements and as at the date of this report.

NOTE 5: SEGMENT INFORMATION

(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 three geographic segments being Australia, Canada and the USA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 5: SEGMENT INFORMATION (Continued)

(b) Segment results

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

| | Segment revenue and other income for the period | | Segment loss after tax for the period | |
|------------------------|---|------------------|---------------------------------------|--------------------|
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| | \$ | \$ | \$ | \$ |
| Australia | 228,078 | 744,890 | (1,190,543) | (181,066) |
| USA | 221,579 | 336,104 | (1,164,972) | (80,398) |
| Europe | 246 | - | (1,292) | - |
| Canada | 281,734 | - | (1,481,246) | - |
| Central Administration | - | - | (6,353,851) | (1,070,322) |
| | 731,636 | 1,080,994 | (10,191,904) | (1,331,787) |

The segment revenue and other income above comprises the R&D rebate, cashflow boost and interest.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the Group's 30 June 2020 notes to the consolidated financial statements. 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 period | | Segment liabilities at end of the period | |
|------------------------|-------------------------------------|------------------|--|----------------|
| | 31 December 2020 | 30 June 2020 | 31 December 2020 | 30 June 2020 |
| | \$ | \$ | \$ | \$ |
| Australia | 377,756 | 398,272 | - | - |
| USA | - | - | - | - |
| Europe | - | - | - | - |
| Canada | - | - | - | - |
| Central Administration | 24,351,636 | 2,845,835 | 1,398,204 | 931,528 |
| | 24,729,391 | 3,244,107 | 1,398,204 | 931,528 |

(d) Segment net assets

| | 31 December 2020 | 30 June 2020 |
|------------------------|-------------------|------------------|
| | \$ | \$ |
| Australia | 377,756 | 398,273 |
| USA | - | - |
| Europe | - | - |
| Canada | - | - |
| Central Administration | 22,953,431 | 1,914,306 |
| | 23,331,187 | 2,312,579 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 6: LOSS PER SHARE

The following reflects the loss and share data used in the calculations of basic and diluted losses per share:

| | 31 December 2020 | 31 December 2019 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Loss for the period attributable to the members of the parent | (10,191,904) | (1,331,787) |
| <u>Weighted average number of shares:</u> | | |
| Weighted average number of ordinary shares used in calculating basic loss per share | 132,764,977 | 119,213,994 |
| Effect of dilutive securities: | | |
| Adjusted weighted average number of ordinary shares used in calculating diluted loss per share | - | - |
| | 132,764,977 | 119,213,994 |
| <u>Loss per share (cents per share):</u> | | |
| Basic loss per share for the period | (7.68) | (1.12) |
| Diluted loss per share for the period | (7.68) | (1.12) |

NOTE 7: DIVIDENDS PAID AND PROPOSED

The Company had not declared any dividends during and/or since the end of the half-year 31 December 2020 (31 December 2019: \$nil).

NOTE 8: CASH AND CASH EQUIVALENTS

| | 31 December 2020 | 30 June 2020 |
|--------------|---------------------|------------------|
| Cash at bank | 23,599,293 | 2,633,122 |
| Cash on hand | - | - |
| | 23,599,293 | 2,633,122 |

NOTE 9: OTHER CURRENT ASSETS

| | \$ | \$ |
|----------------------|----------------|---------------|
| Prepayments | 46,496 | 12,648 |
| Rental Deposits | 20,100 | 3,200 |
| Term Deposits | 29,975 | 29,975 |
| Other Current Assets | 21,578 | 19,095 |
| | 118,149 | 64,918 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 10: PLANT AND EQUIPMENT

| | 31 December 2020 | 30 June 2020 |
|---------------------------------------|-----------------------|-----------------------|
| NON-CURRENT | | |
| Laboratory plant and equipment | | |
| At cost | 508,265 | 507,449 |
| Less accumulated depreciation | (177,755) | (157,857) |
| | <u>330,510</u> | <u>349,592</u> |
| Office furniture and equipment | | |
| At cost | 29,731 | 28,537 |
| Less accumulated depreciation | (11,795) | (10,020) |
| | <u>17,936</u> | <u>18,517</u> |
| Computer equipment | | |
| At cost | 35,556 | 30,630 |
| Less accumulated depreciation | (29,651) | (23,195) |
| | <u>5,905</u> | <u>7,435</u> |
| Office improvements | | |
| At cost | 56,835 | 56,835 |
| Less accumulated depreciation | (11,075) | (9,808) |
| | <u>45,760</u> | <u>47,027</u> |
| Library and website costs | | |
| At cost | 7,176 | 7,176 |
| Less accumulated depreciation | (5,616) | (5,431) |
| | <u>1,560</u> | <u>1,745</u> |
| Total Plant and Equipment | <u>401,671</u> | <u>424,316</u> |

Reconciliations

Movement in the carrying amounts of the plant and equipment between the beginning and the end of the current financial period.

| | |
|---|-----------------------|
| | \$ |
| Opening balance, 1 July 2019 | 424,316 |
| Additions | 6,936 |
| Depreciation expense | (29,581) |
| Ending balance, 31 December 2020 | <u>401,671</u> |

NOTE 11: NON-CURRENT ASSETS - RIGHT-OF-USE ASSETS

| | 31 December 2020 | 30 June 2020 |
|-----------------------------------|---------------------|-----------------|
| | \$ | \$ |
| Land and buildings - right-of-use | 295,939 | 230,495 |
| Less: Accumulated depreciation | (61,025) | (150,108) |
| | <u>234,914</u> | <u>80,387</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 12: TRADE AND OTHER PAYABLES

| | 31 December 2020 | 30 June 2020 |
|---------------------------|-----------------------------|-------------------------|
| | \$ | \$ |
| CURRENT | | |
| Trade payables | 580,380 | 159,486 |
| Employee related payables | 145,950 | 101,940 |
| Sundry creditors | 55,590 | 201,473 |
| Other Payables | 30,047 | 32,600 |
| | 811,967 | 495,499 |

NOTE 13: SHARE CAPITAL

| | 31 December 2020 | | 30 June 2020 | |
|--|-------------------------|-------------------|---------------------|-------------------|
| | No. | \$ | No. | \$ |
| Issued and fully paid ordinary shares | 173,711,175 | 43,214,134 | 136,071,787 | 18,466,336 |
| Collateral shares issued in trust | - | - | - | - |
| | 173,711,175 | 43,214,134 | 136,071,787 | 18,466,336 |
| Movements in ordinary shares on issue | | | | |
| Opening balance | 136,071,787 | 18,466,336 | 107,129,919 | 11,573,369 |
| Shares issued during the period: | | | | |
| - shares issued to consultants/KMP ¹ | 60,000 | 66,900 | 195,655 | 55,204 |
| - Conversion of performance shares ² | 14,796,348 | 1,220,699 | - | - |
| - Acuity Placement Deed ³ | - | - | 750,000 | 150,000 |
| - new shares issued from placement ⁴ (net costs) | 21,500,000 | 23,213,081 | 26,032,477 | 5,844,656 |
| - new shares issued on options exercised | 1,283,040 | 247,118 | 1,963,736 | 558,653 |
| | 37,639,388 | 24,747,798 | 28,941,868 | 6,608,513 |
| Transfer from reserves to share capital | - | - | - | 284,454 |
| | - | - | - | 284,454 |
| Total⁵ | 173,711,175 | 43,214,134 | 136,071,787 | 18,466,336 |

¹ Refer to Note 16 for a summary of shares issued to consultants, employees and KMP during the period.

² The milestones associated with 7,398,174 of the Company's Class C Performance Shares and 7,398,174 of the Company's Class D Performance Shares were met resulting in the issue of 14,796,348 ordinary fully paid shares.

³ During the year ended 30 June 2019, the Company entered into a Controlled Placement Deed ('CPD') with Acuity Capital Investment Management Pty Ltd as trustee for The Acuity Capital Holdings Trust ('Acuity'). The CPD grants an option to Acuity to issue Recce shares at the discretion of Recce, and which Acuity has the discretion to either accept or decline. Recce may at any time cancel the CPD and buy back the collateral shares for no consideration. On 15 February 2019, 4,500,000 Ordinary shares were issued to Acuity Capital as collateral shares pursuant to the Controlled Placement Deed, however as at 30 June 2019 none of the options available under this facility had been exercised, and no accounting recognition was required. During financial year ended 30 June 2020, 750,000 ordinary shares were issued at 20 cents per share.

⁴ On 30 September 2020, the Company issued 21,500,000 ordinary shares raising \$27,950,000 (before capital raising costs). Total capital raising costs were \$3,621,825 comprising cash component of \$1,718,675 and options fee component of \$3,018,244 (refer to note 16).

⁵ At 31 December 2020, 173,711,175 ordinary shares on issue were quoted in ASX.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 13: SHARE CAPITAL (CONTINUED)

(c) Options from shares issued

| Particulars | Issue Date | Exercise Date | Exercise Price | 31 December 2020 | 30 June 2020 |
|-------------|------------|---------------|----------------|-------------------|------------------|
| | | | | No. | No. |
| Options | 16-Jun-17 | 21-Jun-21 | 25.93 | - | 141,000 |
| Tranche 1 | 19-Jul-17 | 19-Jul-20 | 21.71 | - | 59,880 |
| Tranche 2 | 06-Sep-17 | 25-Aug-20 | 18.72 | - | - |
| Tranche 3 | 29-Sep-17 | 29-Sep-20 | 17.80 | - | - |
| 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 |
| Options | 15-Feb-19 | 15-Feb-23 | 16.80 | 1,165,800 | 1,800,000 |
| Options | 19-Dec-19 | 19-Feb-23 | 31.20 | 1,250,000 | 1,250,000 |
| Options | 23-Sep-20 | 23-Sep-25 | 156.00 | 7,650,000 | - |
| Options | 30-Sep-20 | 30-Sep-23 | 156.00 | 3,750,000 | - |
| | | | | <u>13,815,800</u> | <u>3,698,840</u> |

NOTE 14: RESERVES

| | 31 December 2020 | 30 June 2020 |
|----------------------------|------------------|------------------|
| Performance shares reserve | 223,782 | 1,444,481 |
| Options reserve | 8,043,434 | 360,021 |
| | <u>8,267,216</u> | <u>1,804,502</u> |

| | Performance Shares | Options Reserve |
|--|--------------------|------------------|
| Movements in reserves | \$ | \$ |
| Opening balance | 1,444,481 | 360,021 |
| Options issued during the period: | | |
| - Conversion of Class C performance shares | (821,198) | - |
| - Conversion of Class D performance shares | (399,501) | - |
| - Issue of Corporate Advisory Options | - | 3,018,244 |
| - Options issued to KMP (refer to note 16) | - | 4,665,169 |
| | <u>223,782</u> | <u>8,043,434</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 15: COMMITMENTS AND CONTINGENCIES

Other than the contingent liability in note 18, the Company is not aware of any other contingent liabilities or contingent assets as at 31 December 2020.

NOTE 16: SHARE BASED PAYMENTS EXPENSE

| | 31 December 2020 |
|--|-----------------------------|
| | \$ |
| Issue of 60,000 shares to Alan Dunton | 66,900 |
| Issue of 2,250,000 options to James Graham | 1,372,109 |
| Issue of 1,500,000 options to Michele Dilizia | 914,739 |
| Issue of 1,125,000 options to Alan Dunton | 686,054 |
| Issue of 2,175,000 options to John Prendergast | 1,326,372 |
| Issue of 600,000 options to Justin Ward | 365,896 |
| TOTAL SHARE-BASED PAYMENTS RECOGNISED THROUGH P&L | 4,732,069 |
| Issue of 3,750,000 Corporate Advisor Options | 3,018,244 |
| TOTAL SHARE-BASED PAYMENTS RECOGNISED THROUGH EQUITY | 3,018,244 |

Fair value of Share Options granted to executives and employees

The fair value of the 7,650,000 Share Options was calculated using the Black-Scholes model. The assumptions used in calculating the fair value of Share Options, were:

- exercise price: 1.56 cents
- grant date share price: 1.115 cents
- dividend yield: 0.0%;
- Issue of 2,250,000 options to James Graham, 1,500,000 options to Michele Dilizia, 1,125,000 options to Alan Dunton, 2,175,000 options to John Prendergast and 600,000 options to Justin Ward;
- risk-free rate based on the Australian Treasury bond rate for five years, to align with the term of the options: 0.32%;
- expected volatility derived from the share volatility of comparable listed companies over five years, to align with the term of the options: 77.0%; and
- expected life of the Share Option: five years.

Fair value of Share Options granted to corporate advisors

Where the fair value of services rendered by consultants during the period could not be reliably measured, these are measured by reference to the fair value of equity instruments granted. The estimate of the fair value of the services is measured based on a Black-Scholes option valuation methodology. The fair value of the 3,750,000 Share Options was calculated using the Black-Scholes model. The assumptions used in calculating the fair value of Share Options, were:

- exercise price: 1.56 cents
- grant date share price: 1.56 cents
- dividend yield: 0.0%;
- 3,750,000 options issued to Shaw and Partners as part of payment for capital raising fees;
- risk-free rate based on the Australian Treasury bond rate for three years, to align with the term of the options: 0.19%;
- expected volatility derived from the share volatility of comparable listed companies over three years, to align with the term of the options: 81.0%; and
- expected life of the Share Option: three years.

The value brought to account as share-based payment expense in the half year ended 31 December 2020 was \$4,732,069 relating to the fair value of Options granted to the executives and employees was expensed to the Profit and Loss. The fair value of Options granted to the Corporate Advisors for the capital raising amounting to \$3,018,244, has been expensed through as transaction costs on share issue.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 17: EVENTS SUBSEQUENT TO REPORTING PERIOD

On 2 February 2021 the Company received \$925,981 as part of the Research and Development Tax Incentive rebate.

Subsequent to period end the Company granted 765,000 options to employees under the Company's Employee Incentive Plan which were issued on 22 February 2021 (refer to the lodged Appendix 3G for further details).

Other than the above, no other matters or circumstances have arisen since the end of the financial period, which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or state of affairs of the Group in future financial periods.

NOTE 18: CONTINGENT LIABILITIES

On 20 August 2015 the Company issued 8,754,423 Class C Performance Shares and 8,754,423 Class D Performance Shares to directors and key management personnel of the Company. On 26 June 2020 the Company announced that milestones for conversion of 7,398,174 of the Class C Performance Shares into fully paid ordinary shares had been achieved, but that the Company had determined that the remaining 1,356,249 Class C Performance Shares were ineligible for conversion. On 17 August 2020 the Company announced that milestones for conversion of 7,398,174 of the Class D Performance Shares into fully paid ordinary shares had been achieved, but that the Company had determined that the remaining 1,356,249 Class D Performance Shares were ineligible for conversion.

The holders of the 1,356,249 Class C Performance Shares and 1,356,249 Class D Performance Shares that the Company determined to be ineligible contest the Company's decision of ineligibility for conversion and have commenced proceedings, seeking orders that the Class C and Class D Performance Shares held by them be converted into fully paid ordinary shares in the Company. If those holders are successful in that litigation then the Company expects that it will be ordered to convert the 1,356,249 Class C Performance Shares and 1,356,249 Class D Performance Shares held by them into fully paid ordinary shares in the Company.

There were no other contingent liabilities as at 31 December 2020.

DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

The Directors of the Company declare that:

1. The condensed consolidated financial statements and notes to the financial statements of the Group are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standards AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements ; and
 - b. give a true and fair view of the consolidated financial position as at 31 December 2020 and of its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors pursuant to s.303(5) of the *Corporations Act 2001* and is signed for and behalf of the Directors by:

A handwritten signature in black ink that reads "John Prendergast".

Dr John Prendergast
Non-Executive Chairman
25 February 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Recce Pharmaceuticals Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Recce Pharmaceuticals Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Responsibility of the directors for the 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 internal 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 for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group’s financial position as at 31 December 2020 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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.

BDO Audit (WA) Pty Ltd



Neil Smith

Director

Perth, 25 February 2021