

ANNUAL REPORT 2020



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Recce Pharmaceuticals is pioneering the development and commercialisation of New Classes of Synthetic Anti-Infectives designed to address the urgent global health problems of antibiotic resistant superbugs and emerging viral pathogens. Recce's anti-infective pipeline is unique and comprised of two broad-spectrum synthetic polymer antibiotics, RECCE® 327 and RECCE® 435, as well as a synthetic anti-infective for viral infections, RECCE® 529. All RECCE® compounds contain a unique mechanism of action against hyper-mutation on bacteria and viruses, respectively.

RECCE® 327 is the Company's lead drug candidate and has been developed for the treatment of blood infections and sepsis derived from *E. coli* and *S. aureus* bacteria – including their superbug forms. The FDA has awarded RECCE® 327 Qualified Infectious Disease Product designation under the Generating Antibiotic Initiatives Now (GAIN) Act – labelling it for Fast Track Designation, plus 10 years of market exclusivity post approval. Recce wholly owns its automated manufacturing facility and anti-infective pipeline. Its business is the unique capabilities of RECCE® technologies targeting synergistic, unmet medical needs.



HIGHLIGHTS

Commercial

- 500% increase in production and robust operational outputs;
- Board appointment of U.S. based, NYSE, and NASDAQ Director Dr John Prendergast to Independent Chair, and Dr Justin Ward appointed to Board as Executive Director;
- Delivered opening Research and Development (R&D) Address at 2019 World Antimicrobial Resistance (AMR) Congress;
- Raised approximately AU\$6.76m at 0.26 per share from sophisticated and institutional investors.

Regulatory

- RECCE® 327 permitted for supply to Australian medical practitioners in defined circumstances under the TGA SAS;
- European Patent Office (EPO) has granted 15 claims covering family two patent – copolymer for use in a method of treatment of a parenteral infection;
- Japan Patent Office (JPO) has granted 12 claims covering family two patent – copolymer for use in a method of treatment of a parenteral infection.

Clinical

- Positive safety studies indicated 24-hour dosing up to 80x efficacious dose well tolerated in rats and dogs. Findings suggest a wide therapeutic dosing window;
- Positive data demonstrated broad efficacy against MRSA, *E. coli* in kidney and urinary tract infections (UTIs), and *Neisseria gonorrhoeae*;
- Antiviral applications with positive data against Influenza A – RECCE® 327 showed significant dose-dependent decrease in viral load in the lungs compared to approved antiviral drug ribavirin;
- First-in-human Phase I clinical trial agreement signed with leading clinical research organisation Parexel.

MESSAGE FROM THE CHAIRMAN



We are pleased to share our achievements over the past year and update you on our strategic goals and objectives for the coming year.

During the reporting period, Recce Pharmaceuticals has continued to make solid advances on the development of our revolutionary broad-spectrum synthetic antibiotic platform designed to help address the unmet global health threat from antibiotic resistant superbugs.



Dr John Prendergast
Non-Executive Chairman

A key development towards this goal was the signing of a formal agreement to start the Phase I first-in-human clinical trial of our lead compound, RECCE® 327, formulated using synthetic polymer technology to treat blood infections and sepsis. With RECCE® 327 set to enter human clinical trials in Australia, we have also allocated additional resources to expand the clinical pipeline.

Our initial focus is sepsis, septicaemia or otherwise known as blood poisoning; however, we are also actively pursuing several additional applications for our unique technology. Each of these indications are potential high-volume, high-demand, multi-billion-dollar markets.

Promising results from initial animal studies assessing the use of RECCE® 327 as a potential treatment for kidney and urinary tract infections, influenza, gonorrhoea, and skin burns has created interest among the medical community and patients with recurring or difficult to treat infections.

The insights gained from each of these programs continue to inform our efforts and strategies for major markets.

Protecting our technology is of the utmost importance. Our extensive and growing library of patent applications ensure our intellectual property rights are protected. This covers our innovations, not just in manufacturing but also in the use of our lead compound for a range of therapeutic applications including its methods of administration in diverse clinical settings.

We are excited at the prospects for the Company's therapeutic pipeline during the coming year and look forward to providing updates on their progress.

Presentations

While the global SARS-CoV-2 pandemic has limited our ability to travel and meet face-to-face with industry stakeholders, the board and management have spent a considerable time over the second half of the year presenting and engaging virtually with investors, medical professionals and clinical partners.

“We truly believe in the ability of our new classes of anti-infectives to transform the treatment of many diseases.”

Our goal in these virtual discussions has been to sustain interest in our expanding pipeline through continual communication aimed at establishing and retaining partnerships essential to our growth.

These initiatives are highlighted by our opening address and presentation to the World Antimicrobial Resistance Congress and the simultaneous publication of a detailed white paper outlining the potential applications for our unique synthetic antibiotics. The presentation and paper were both well received and provided significant momentum to our ongoing industry engagement program.

During the reporting period we successfully raised AU \$6.76 million to fund our programs and ensure a solid footing as we expand our technical and commercial capabilities, collaborations and clinical programs in Australia and globally.

Outlook

Our growing portfolio of synthetic anti-infectives are targeting major infections where the therapeutic

need is greatest and where the current standard of care often fails to improve patient outcomes. This includes ESKAPE pathogens (*Enterococcus faecium*, *Staphylococcus aureus*, *Klebsiella pneumoniae*, *Acinetobacter baumannii*, *Pseudomonas aeruginosa*, and *Enterobacter species*) which are the leading cause of hospital-acquired infections – most of which are drug-resistant.

Establishing our leading anti-infective product portfolio has been possible through the passion of key opinion leaders, supporting external stakeholders and the foresight and dedication of our team.

In addition, we are deeply grateful for the support of our shareholders and our institutional investors whose continued confidence has provided us with sufficient capital to enable successful execution of our clinical and business operations.

We truly believe in the ability of our new classes of anti-infectives to transform the treatment of many diseases and address the global health threat of antibiotic resistance. Our compounds have a unique

mechanism of action against hyper-mutation of both bacteria and viruses which provide new hope for the millions of patients who today have few or no treatment options left.

As always, we thank you for your continued valued support and investment in Recce Pharmaceuticals throughout the financial year.

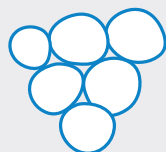


Dr John Prendergast
Non-Executive Chairman

COMPANY PROFILE

The reporting period saw the Company achieve an array of developmental milestones. Our lead candidate RECCE® 327 continued to demonstrate efficacy against a range of Gram-positive and Gram-negative bacterial pathogens. Studies continued to indicate RECCE® 327 to have a unique ability to cause bacterial cell lysis without undue inhibition of healthy cells. RECCE® 327, the compound of primary focus for the reporting period, continued in the drug development pathway, indicating great promise for a new class of broad-spectrum synthetic antibiotics designed to address the urgent global health threat posed by antibiotic resistance.

Methicillin-Resistant *Staphylococcus aureus* (MRSA)



Staphylococcus aureus (*S. aureus*) are common bacteria that spread rapidly in healthcare facilities and the community. Methicillin-Resistant *S. aureus* (MRSA) can cause difficult-to-treat staph infections due to resistance to some antibiotics.

FACTS: MRSA

MRSA

is a major nosocomial pathogen worldwide¹

Up to 74%

of worldwide *S. aureus* infections are MRSA²

Attributed to

A\$2.5bn

to healthcare costs in US³

¹ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5596608/>

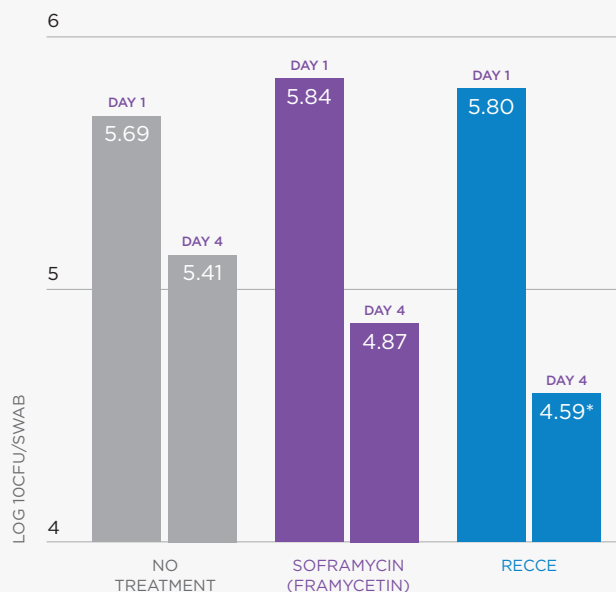
² <https://ccforum.biomedcentral.com/articles/10.1186/s13054-017-1801-3#ref-CR22>

³ <https://www.cdc.gov/drugresistance/pdf/threats-report/2019-ar-threats-report-508.pdf>

In a study against the MRSA superbug, rats with topical burns treated with RECCE® 327 demonstrated compelling *in-vivo* antibacterial activity. The results showed that RECCE® 327 was effective in reducing bacterial load in wounds and showed enhanced wound contraction compared to the best-in-class treatment – Soframycin.

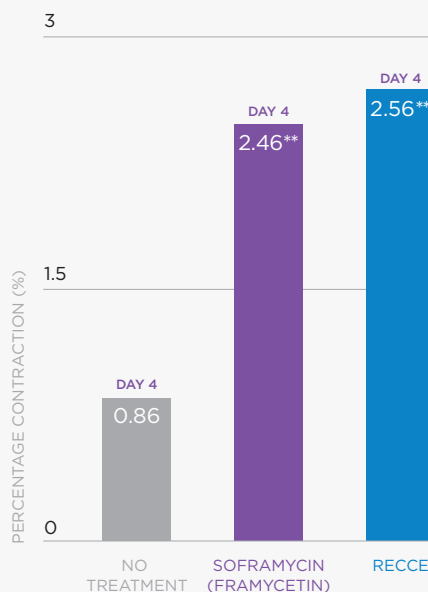
Bacterial Load on Wound

Methicillin-Resistant *Staphylococcus aureus* (MRSA)



Wound Healing

Methicillin-Resistant *Staphylococcus aureus* (MRSA)



GROUP 1

Burn wound with infection, **no treatment** – sterile topical saline, once daily.

GROUP 2

Burn wound with infection + Market drug – **Soframycin, twice daily.**

GROUP 3

Burn wound with infection + **RECCE® 327** – topical once daily.

RECCE® 327 mg/kg dosing is based upon 'total administered solution'. A significant proportion of RECCE® 327 administered solution quoted includes inactive components such as diluent/water and stabilising medium. The Active Pharmaceutical Ingredient (API) as is sometimes the quoted mg/kg of the comparative product/s, likely to dramatically benefit by way of reduction to the otherwise stated RECCE® figure.

*Significantly lower than Day 1.

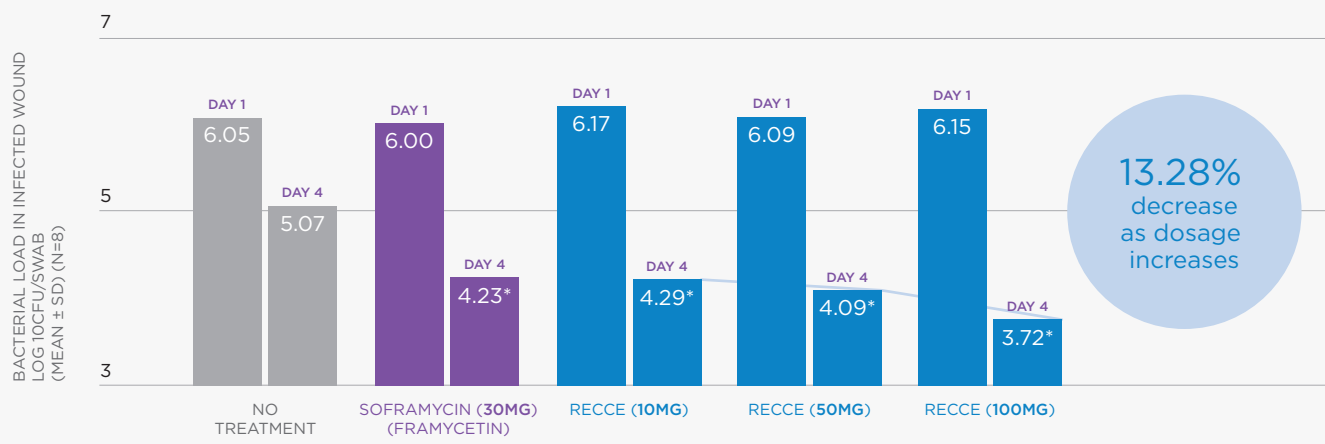
**Significantly different from vehicle control.

Trial conducted by independent clinical research organization.

A further study was undertaken against MRSA, which showed significant *in-vivo* antibacterial activity in rats with topical burns treated with RECCE® 327. RECCE® 327 continued to show efficacy at different dose levels with significant reduction in bacterial count in the infected wound when compared to the vehicle control ($p < 0.05$). In this study Soframycin was applied twice daily at optimum therapeutic dose whereas a once daily application of RECCE® 327 demonstrated antibacterial efficacy reinforcing that **RECCE® 327 may be a more potent antibiotic without additional toxicity considerations associated with similar doses of Soframycin**. As dosage increased from 10mg to 100mg, there was a further 13.28% decrease in bacterial load.

Study 2 – Wound Infection

Methicillin-Resistant *Staphylococcus aureus* (MRSA)



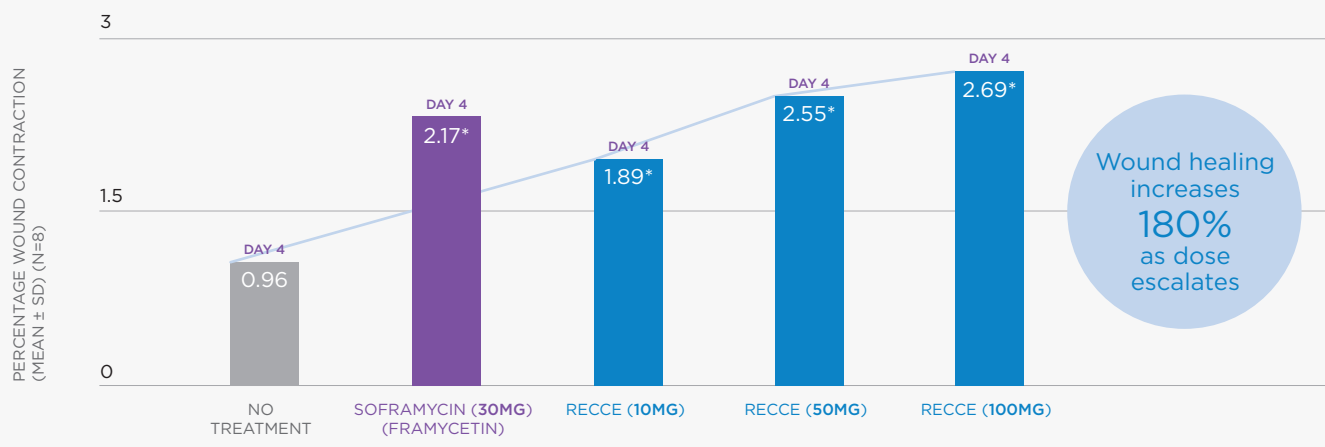
*Significantly different from day 1 PI [$p < 0.05$].

RECCE® 327 mg/kg dosing is based upon 'total administered solution'. A significant proportion of RECCE® 327 administered solution quoted includes inactive components such as diluent/water and stabilising medium. The Active Pharmaceutical Ingredient (API) as is sometimes the quoted mg/kg of the comparative product/s, likely to dramatically benefit by way of reduction to the otherwise stated RECCE® figure.

RECCE® 327 was further assessed in a wound contraction study, demonstrating significant dose-dependent wound healing activity when compared to the vehicle control ($p < 0.05$). Additionally, **RECCE® 327 was 180% more effective in wound healing as the dose escalated in comparison to the group that received no treatment**.

Study 2 – Wound Contraction

Methicillin-Resistant *Staphylococcus aureus* (MRSA)

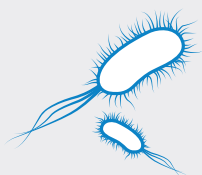


*Significantly different from day 1 PI [$p < 0.05$].

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This additional antibacterial efficacy data will be presented to a leading, teaching Australian hospital for their anticipated collapsed Phase Ia/b topical study considerations.

Kidney/Urinary Tract Infection



A urinary tract infection (UTI) is caused by micro-organisms, usually a bacterium called *Escherichia coli* (*E. coli*).

FACTS: Kidney and UTI infections

90%

of kidney infections are caused by *E. coli*¹

85%

of all UTI's are caused by *E. coli*²

Nearly **25%**

of all sepsis cases in adults result following a UTI³

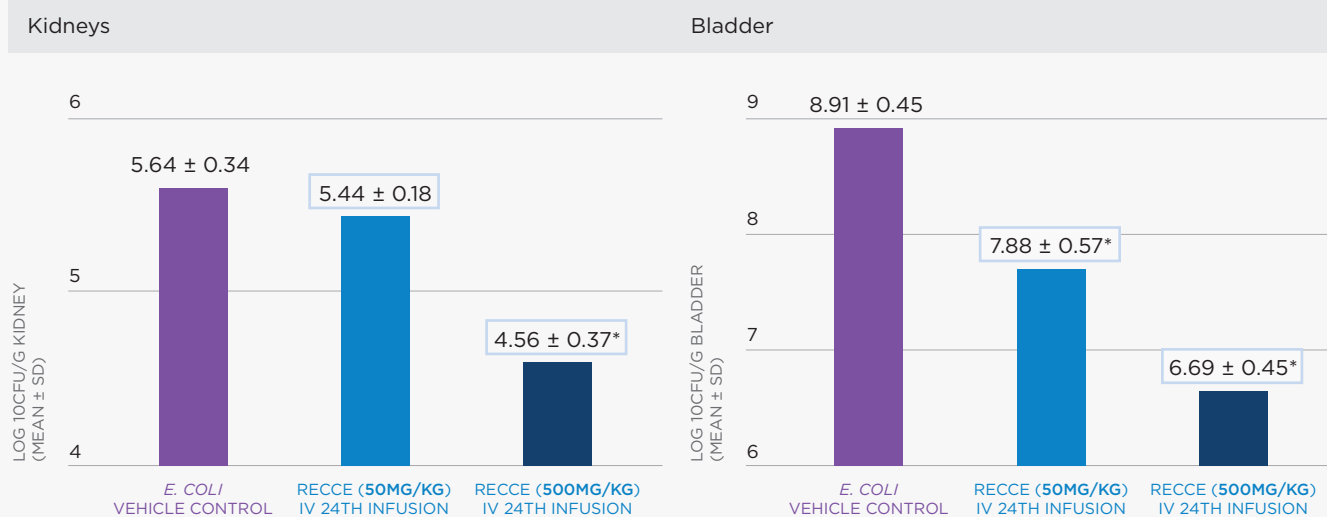
¹ <https://my.clevelandclinic.org/health/diseases/15456-kidney-infection-pyelonephritis#:~:text=A%20bacteria%20called%20Escherichia%20Coli,the%20bladder%20to%20the%20kidneys>

² https://wwwnc.cdc.gov/eid/article/18/3/11-1099_article

³ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5119864/#:~:text=Approximately%2025%25%20of%20all%20adult,%2C%20%26%20Naber%2C%202007>

In another study, an independent research organisation further tested RECCE® 327 in a rat infection model for the treatment of kidney and UTIs caused by *E. coli*, which can often progress to sepsis. The data demonstrated RECCE® 327 could potentially form a part of a broader anti-infective treatment model in pre-sepsis.

Efficacy of RECCE® 327



*($p < 0.05$) significantly different from vehicle control.

RECCE® 327 mg/kg dosing is based upon 'total administered solution'. A significant proportion of RECCE® 327 administered solution quoted includes inactive components such as diluent/water and stabilising medium. The Active Pharmaceutical Ingredient (API) as is sometimes the quoted mg/kg of the comparative product/s, likely to dramatically benefit by way of reduction to the otherwise stated RECCE® figure.



Worldwide, UTIs' prevalence was estimated to be around 150 million persons per year¹

UTIs can spread from the kidneys,

going on to cause sepsis and septic shock, leading to death. More than half the cases of so called 'urosepsis' among older adults are caused by a UTI.²

In particular patients in hospital or nursing home settings

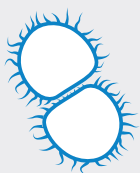
with indwelling urethral catheters, ureteric stents, nephrostomy tubes, neurogenic bladder, cystocele, or vesicoureteral reflux are at a higher risk for developing urosepsis. These patients in long-term-care facilities are especially at a higher risk of developing infections from drug-resistant organisms making them harder to treat.³

¹ <https://www.hindawi.com/journals/jdr/2016/6573215/>

² <https://www.sepsis.org/sepsisand/urinary-tract-infections/>

³ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2840933/>

Positive Data from Safety Studies



Neisseria gonorrhoeae (*N. gonorrhoeae*) causes gonorrhoea, a sexually transmitted disease that can result in life-threatening ectopic pregnancy, infertility and can increase the risk of contracting HIV. *N. gonorrhoeae* is a species of Gram-negative bacteria and the second most common sexually transmitted infection globally. The World Health Organisation lists *N. gonorrhoeae* as a priority pathogen on its list of antibiotic resistant bacteria that pose the greatest threat to human health.

FACTS: *N. gonorrhoeae*

550,000

estimated drug resistant infections each year in the USA¹

Globally,
78 million

people are estimated to be infected each year²

A\$185.9m*

annual discounted lifetime direct medical costs among total US cases¹

¹ <https://www.cdc.gov/drugresistance/pdf/threats-report/2019-ar-threats-report-508.pdf>

² <https://www.who.int/news-room/detail/07-07-2017-antibiotic-resistant-gonorrhoea-on-the-rise-new-drugs-needed>

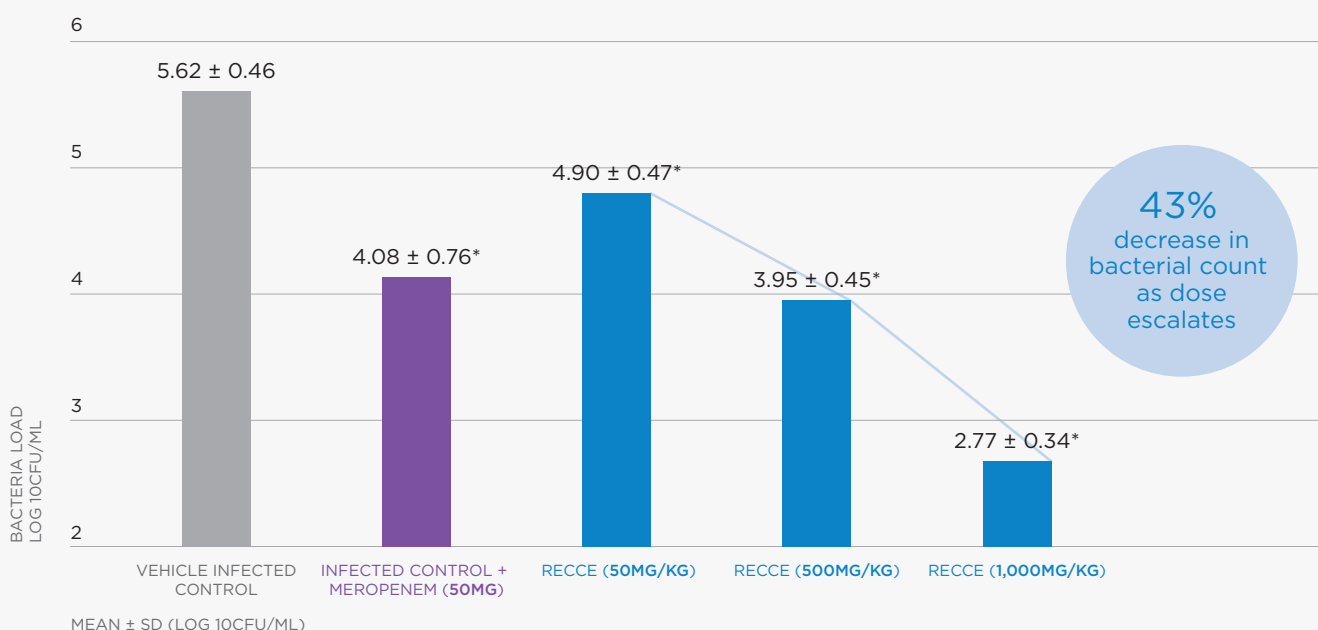
*USD (\$1) \$133.4m converted to AUD (\$1.39) 25 Aug 2020

RECCE® 327 has shown significant *in-vivo* antibacterial activity against *N. gonorrhoeae* in a study conducted in mice. The study was carried out by an independent contract research organisation to assess dose dependency of RECCE® 327 and *in-vivo* antibacterial activity against *N. gonorrhoeae*. The data demonstrated a promising dose-dependent decrease in bacterial load in infection as compared to the vehicle control and approved therapy. In this study Meropenem, a broad spectrum carbapenem antibiotic, was used at its optimum dose as the recognised efficacy model. In practice however, Meropenem's high rates of bacterial resistance have recently led to restriction of its use strictly reserved for infections caused by resistant organisms.⁴

⁴ https://ohiostate.pressbooks.pub/osuvmcabxuse/chapter/abx_meropenem-companion/

Efficacy of RECCE® 327

Against *N. Gonorrhoeae* in Mice

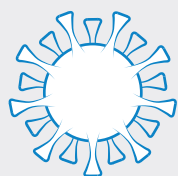


*(p<0.05) significantly different from vehicle control.

RECCE® 327 mg/kg dosing is based upon 'total administered solution'. A significant proportion of RECCE® 327 administered solution quoted includes inactive components such as diluent/water and stabilising medium. The Active Pharmaceutical Ingredient (API) as is sometimes the quoted mg/kg of the comparative product/s, likely to dramatically benefit by way of reduction to the otherwise stated RECCE® figure.

COMPANY PROFILE CONTINUED

RECCE viral capabilities



Influenza A is a highly contagious respiratory illness and may be caused by infection with a virus; it is often called the flu. There are three types of Influenza virus: A, B and C. Influenza A is more serious than B and C and is the only type known to cause widespread outbreaks.

FACTS: Influenza A

The Centre for Disease Control estimates Influenza has resulted in between **9m-45m** illnesses annually in the USA since 2010¹

Between **140,000-810,000** hospitalizations annually in the USA since 2010¹

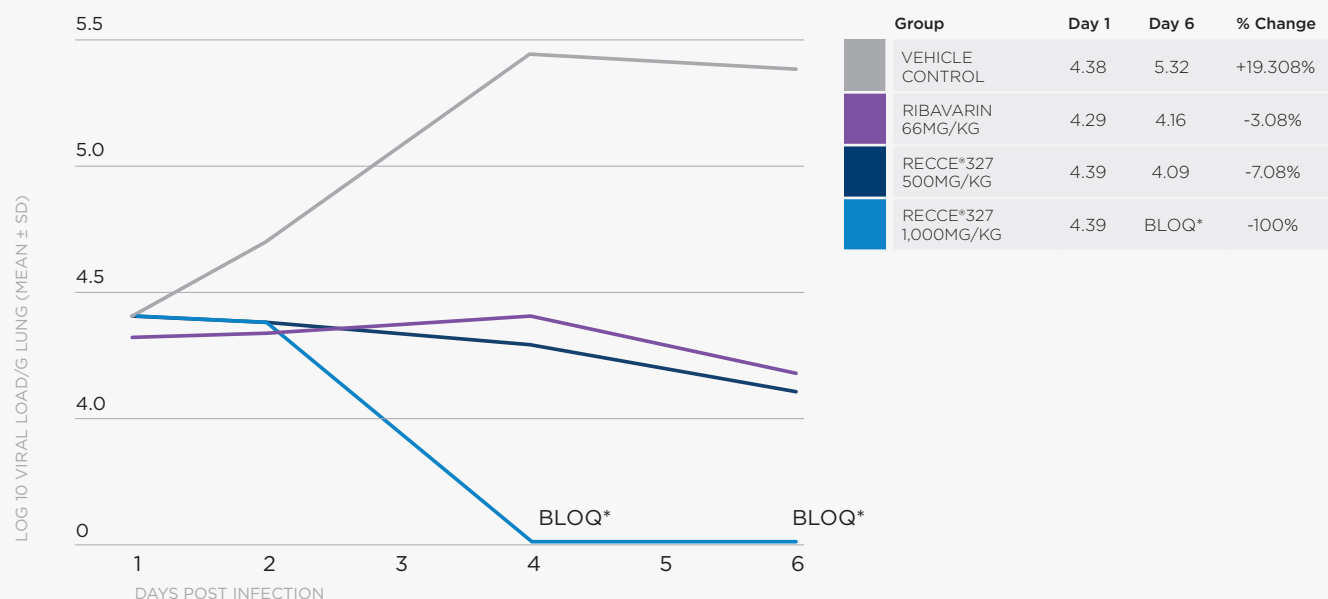
Estimated **45,000,000** USA Influenza Burden 2017-2018¹

¹ <https://www.cdc.gov/flu/about/burden/index.html#:~:text=CDC%20estimates%20that%20influenza%20has,61%2C000%20deaths%20annually%20since%202010>

In addition to demonstrating capability against different types of bacteria, Recce's 'master key' synthetic anti-infective compound exhibited efficacy against the Influenza A virus in mice. RECCE® 327 showed significant and dose-dependent decrease in the viral growth rate and viral load in lungs for mice infected with Influenza A following treatment with RECCE® 327, compared to the control group, and a group treated with an approved antiviral drug. As dosage increased from 500mg/kg to 1,000mg/kg, the viral count fell below the limit of quantitation (BLOQ) on Days 4 and 6 post-infection.

Efficacy of RECCE® 327

Against Influenza A Lung Infection in Mice



*BLOQ - Below Limit of Quantitation.

RECCE® 327 mg/kg dosing is based upon 'total administered solution'. A significant proportion of RECCE® 327 administered solution quoted includes inactive components such as diluent/ water and stabilising medium. The Active Pharmaceutical Ingredient (API) as is sometimes the quoted mg/kg of the comparative product/s, likely to dramatically benefit by way of reduction to the otherwise stated RECCE® figure.

The Company has formed a new Compound RECCE® 529, focused on viral indications following background anti-viral research. Claims to RECCE® 529 have been lodged in a provisional Patent Family 4 submission and are expected to be built upon as independent COVID study data becomes available.

Recce Pharmaceuticals on the world stage



Throughout the year, we presented across several media platforms, conferences and investor events. We have been working closely with a global specialist public relations agency focused on life science and medical technology – LifeSci Communications. Our international profile among stakeholders has grown substantially, with a number of world-leading pharmaceutical companies in routine correspondence as to the Company and its anti-infective technology.

The outcomes to date have seen our strategy, investment case and product candidates profiled in a range of leading media platforms such as Drug Discovery News, Empowered Patient podcast, Genetic Engineering and Biotechnology News, Pharma Technology Focus and U.S. based ABC TV, among others.

On a national scale, we have worked with media and investor relations companies such as Wholesale Investor, Ausbiz, Proactive Investor, Spark Plus, Finance News Network and more. Notably, the company attended and presented at the World Anti-Microbial Resistance (AMR) Congress in Washington, D.C. – the largest commercially focused conference exclusively focused on AMR.

The 2019 conference engaged more than 600 attendees from over 40 countries, which included key stakeholders from the pharma and biotech industry, who are involved in the development of AMR drugs and diagnostics. The Company will virtually attend the 2020 World AMR congress and deliver the Opening R&D Address highlighting why Synthetic Antibiotics are the new approach the world needs.

Post AMR Congress in 2019, the Company was a Host Sponsor at The Economist's Antimicrobial Resistance Summit Asia. Executive Director Michele Dilizia sat on the industry panel discussion titled Innovation and R&D from lab to hospital.

The event convened experts from government, industry, and academia, where AMR is elevated from an issue receiving attention by a narrow group of concerned scientists and politicians to a mainstream policy priority for governments worldwide.



The Economist

BOARD OF DIRECTORS AND KEY MANAGEMENT PERSONNEL



Dr John Prendergast

Chairman (Non-Executive)

BSc (Hons), MSc (UNSW), PhD (UNSW), CSS (HU)

US based, current Chairman and Co-founder of Palatin Technologies, Inc. (NYSE: PTN) and Lead Director of Heat Biologics, Inc. (NASDAQ: HTBX) – extensive experience in the international commercialisation of pharmaceutical technologies.

Appointed – 9 July 2019.



Dr Graham Melrose

Executive Director and Chief Research Officer

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

Founder and inventor. Former Executive Director and Head of Research at Johnson & Johnson (Aust) in Sydney, with global responsibilities, particularly in Asia-Pacific.

Dr Melrose resigned post FY19/20 – 3 July 2020.



Dr Alan Dunton

Non-Executive Director

BSc (BioChem) Hons, M.D. (NYU)

US based, Director of Palatin Technologies. Over three decades of senior pharmaceutical experience incl. President and MD of Janssen Research Foundation (J&J Research). Dr Dunton has advanced a number of blockbuster antibiotics through regulatory review and commercialization at fortune 500 companies including J&J and Roche.

Appointed – 14 July 2020.



Michele Dilizia

Executive Director (Regulatory Affairs & Microbiology)

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

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



James Graham

Executive Director (Marketing & Business Development)

BCom (Entrepreneurship), GAICD

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

Appointed Chief Executive Officer August 2020.



Arthur Kollaras

Principal Engineer & Head of Manufacturing

BSc, BEng (Chem), PhilEng (Enviro), MIEAust, MISPE

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

Entered into a consultancy agreement – 1 August 2019.



Dr Justin Ward

Executive Director and Principal Quality Chemist

BSc (Chem), PhD (Chem), MRACI, CChem

A quality control expert who has worked with leading pharmaceutical companies according to international regulatory standards.

Appointed – 9 July 2019.



Dr David Bowers

Chair of the Clinical Advisory Committee

Leading spinal injury physician at Royal North Shore Hospital. Dr Bowers has a special interest in the treatment of complex and life-threatening antibiotic resistant infections, particularly among patients with severe spinal cord injuries.



Alistair McKeough

Company Secretary (Automic Group)

Alistair is a qualified lawyer and Principal of Automic Legal Pty Ltd, Alistair has broad experience as a commercial litigator and Company Secretary to ASX Listed companies.



Justin Reynolds

Chief Financial Officer (Pitcher Partners Sydney)

Justin is a qualified accountant and Partner of Pitcher Partners Sydney. Justin has broad experience covering all areas of accounting, taxation and assurance. Particularly, Justin's areas of expertise are business services and outsourced accounting.

FINANCIAL REPORT

Recce Pharmaceuticals Ltd (Formerly Recce Ltd) and
Controlled Entities ABN 73 124 849 065 Consolidated
Financial Report for the year ended 30 June 2020



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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

Your Directors present their report on Recce Pharmaceuticals Ltd (the 'Company') and controlled entities (the 'Group') for the year ended 30 June 2020.

Directors

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

Dr John Prendergast (appointed 9 July 2019)
Dr Graham Melrose (resigned 3 July 2020)
Ms Michele Dilizia
Mr James Graham
Dr Justin Ward (appointed 9 July 2019)
Dr Alan Dunton (appointed 14 July 2020)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Information on Directors

Dr John Prendergast

Chairman (Non-Executive) – appointed 9 July 2019

Qualifications

BSc (Hons), M.Sc. and Ph.D., C.S.S. (Admin & Mgmt)

Experience

Dr Prendergast is currently Chairman and Co-founder of Palatin Technologies, Inc. (NYSE: PTN), a US biotechnology company capitalised at over US\$260m, developing therapeutics for diseases with significant unmet medical need; and Lead Director of Heat Biologics, Inc. (NASDAQ: HTBX).

Dr Prendergast held previous US biotechnology Board Positions, most notably Lead Director of MediciNova, Inc. valued at over US\$470m (Nasdaq: MNOV) and Osaka Securities Exchange (#4875) and Co-founder/Lead Director of Avigen, Inc, which was acquired by MediciNova in 2009 for US\$37m.

Prior to a career in commercialising pharmaceutical technologies, Dr Prendergast was Managing Director of Paramount Capital Investments and The Castle Group. Dr Prendergast has also served as a member of the Advisory Board for the Institute for the Biotechnology of Infectious Diseases ('IBID') at the University of Technology Sydney, now called the itthree Institute.

Interest in Shares

250,000 Ordinary Shares

Special Responsibilities

Chairman of Audit & Risk Management Committee
Chairman of Nomination & Remuneration Committee

Directorships held in other listed entities during the last three years

Palatin Technologies, Inc. (NYSE: PTN)
Heat Biologics, Inc. (NASDAQ: HTBX)

Dr Graham Melrose

Director (Executive) – resigned 3 July 2020

Qualifications

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

Experience

Dr Melrose is the founder of Recce Pharmaceuticals Ltd and inventor of RECCE antibiotics. He also founded Chemeq Ltd and under his leadership and R&D direction, achieved over a three-year period the top capital gain of all companies listed on the ASX, and an average market capitalisation of approximately \$500 million.

Dr Melrose was a former senior academic in the University of NSW's Department of Applied Organic Chemistry; visiting research scientist at Oxford University and Munich University.

Dr Melrose was the former Executive Director and Chief Research Executive of Johnson & Johnson (Aust) Pty Ltd in Sydney, with global responsibilities, particularly in the Asia-Pacific Region. He also established and operated for some 10 years, an industry-leading marketing consultancy firm.

Interest in Shares

36,450,003 Ordinary Shares*
6,075,000 Class B Performance Shares*
6,075,000 Class D Performance Shares*

**held jointly with wife Olga Mary Melrose*

Special Responsibilities

Nil

Directorships held in other listed entities during the last three years

Nil

Ms Michele Dilizia

Director (Executive)

Qualifications

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

Experience

Ms Dilizia is a Qualified Medical Scientist with specialisation in medical microbiology. Previously, she had a successful executive career in public relations and marketing for a leading retail chain.

Ms Dilizia was a market research consultant, which included marketing development of health-care and pharmaceutical products.

Interest in Shares

3,141,273 Ordinary Shares
577,212 Class B Performance Shares
577,212 Class D Performance Shares

Special Responsibilities

Member of the Nomination and Remuneration Committee

Member of the Audit & Risk Management Committee

Directorships held in other listed entities during the last three years

Nil

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

Mr James Graham

Director (Executive)

Qualifications

BCom (Entrepreneurship), GAICD

Experience

Mr Graham is Executive Director of the Company

Mr Graham has a background in marketing, business development and commercialisation of early stage technology with global potential.

Mr Graham continues to work closely with the growth and direction of Company, routinely investing alongside shareholders in capital rounds to date.

Interest in Shares

Direct ownership

2,258,313 Ordinary Shares

389,712 Class B Performance Shares

389,712 Class D Performance Shares

Indirect ownership

2,787,500 Ordinary Shares

356,250 Class B Performance Shares

356,250 Class D Performance Shares

Special Responsibilities

Member of the Audit and Risk Management Committee

Directorships held in other listed entities during the last three years

Nil

Dr Justin Ward

Director (Executive) – appointed 9 July 2019

Qualifications

BSc (Chem), PhD (Chem), MRACI, Chartered Chemist

Experience

Dr Ward is qualified chemist with specialisation in pharmaceutical quality management and product development.

Before Recce Pharmaceuticals, he held a technical speciality and special project leadership role with Pfizer Pharmaceuticals, involving providing data for the regulatory submissions to the FDA and TGA.

After Pfizer, he was the Laboratory Manager for Solbec, involving, again as presently, drug specifications and pharmaceutical trials for the ASX-Listed company.

Most recently, he was Quality Manager at Phebra and responsible for product quality and release of all drugs of the company with the TGA.

Interest in Shares

Direct ownership

158,966 Ordinary Shares

Indirect ownership

0 Ordinary Shares

Special Responsibilities

Member of the Nomination and Remuneration Committee
Member of the Audit & Risk Management Committee

Directorships held in other listed entities during the last three years

Nil

Dr Alan Dunton

Director (Non-Executive) – appointed 14 July 2020

Qualifications

M.D. New York University School of Medicine

B.S. Biochemistry. (Magna cum laude) State University School of New York at Buffalo

Experience

Dr Dunton has held leadership positions at various biotechnology and pharmaceutical companies including serving as president and chief executive officer at Panacos Pharmaceuticals, Inc., Metaphore Pharmaceuticals, Inc., and chief operating officer at Emisphere Technologies, Inc.

Dr Dunton served in several positions at Johnson and Johnson including president and managing director at the Janssen Research Foundation where he was responsible for leading over 2,000 professionals worldwide and prior to this as vice president of global clinical research and development at the R.W. Johnson Pharmaceutical Research Institute.

Dr Dunton earned his medical degree from New York University School of Medicine following his bachelor's degree in biochemistry from the State University of New York at Buffalo. Dr Dunton then completed his fellowship in clinical pharmacology at New York Hospital/Cornell University Medical Center and, in 1987, was awarded The Nellie Westerman Prize from the American Federation for Clinical Research (AFCR) for his work in medical ethics.

Interest in Shares

Direct ownership

10,000 Ordinary Shares

Indirect ownership

Nil Ordinary Shares

Special Responsibilities

Nil

Directorships held in other listed entities during the last three years

Palatin Technologies, Inc. (NYSE: PTN)

Oragenics, Inc. (NYSE: OGEN)

CorMedix, Inc. (NYSE: GRMD)

Regeneus Ltd (ASX: RGS)

Chief Financial Officer

Justin Reynolds

Justin Reynolds is a Partner at Pitcher Partners Sydney.

Mr Reynolds' experience with multinational companies has led to him developing particular expertise as an Outsourced Financial Controller. He and his team provide their clients with the peace of mind that comes from high quality, technically expert outsourced accounting. Mr Reynolds' has a broad range of experience having dealt with a variety of different sized organisations from small family business to multinational companies and high net worth individuals.

Company Secretary

Alistair McKeough

Alistair McKeough is a Partner at Automic Legal.

Mr Alistair specialises in complex commercial matters that require careful strategic planning. An experienced commercial litigator with an outstanding record of success in contested litigation, Alistair also applied his exceptional back letter knowledge and analytical skills in transactional work. He is trusted by some of Australia's most preeminent business people to handle their personal legal affairs. Alistair is regularly engaged in matters involving serious risk to personal and corporate reputations and he has extensive experience in media sensitive matters. Prior to founding Automic Legal in 2010, Alistair worked at Freehills and was associated to a Judge of the Federal Court of Australia. Alistair's academic work has been quoted by the Court of Appeal of New South Wales and in leading Australian text books. Alistair has extensive experience advising ASX listed companies and their directors and is a member of the University of New South Wales Law Advisory Council.

Principal Activities

The Group is a drug discovery and development business commercialising a new class of synthetic antibiotics with broad spectrum activity designed to address the global health challenge of antibiotic resistant superbugs. Its patented lead candidate known as 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.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

Review of Operations

On 9 July 2019, the Company announced that Dr John Prendergast had been appointed to Independent Chair with founder Dr Graham Melrose stepping back from the role of Executive Chair to Executive Director and Chief Research Officer. In addition, the Company's Principle Chemist, Dr Justin Ward, was appointed to the Board as Executive Director.

On 1 August 2019, the Company announced that it was to deliver an Opening R&D Address at the World Anti-Microbial Resistance (AMR) Congress in Washington D.C., to be held 7-8 November 2019.

On 8 August 2019, the Company announced that the European Patent Office had granted its patent applications for wholly owned RECCE® antibiotics, including lead compound RECCE® 327 furthering marketing/manufacturing monopolies and expanding clinical indications. The patent family titled 'Copolymer for use in a method of treatment of a parenteral infection', is a second family of 15 claims, all of which were granted by the European Patent Office.

On 26 August 2019, the Company announced advances in scaled manufacture and drug quality following positive Food and Drug Administration (FDA) feedback to its Chemistry, Manufacturing, and Controls (CMC) data pack.

On 30 August 2019, the Company announced a successful grant application as 1 of 5 Industrial Partners in collaboration with 16 University and Public Health Organisations, to establish a National Anti-Microbial Resistant (AMR) Research Hub (the Hub) in Sydney, Australia to combat antimicrobial resistance.

On 18 September 2019, the Company announced the cash receipt of A\$163,672 Research and Development Tax Incentive rebate from the Australian Tax Office for the year ending 30 June 2020. The gross Research and Development Tax Incentive rebate before the repayment of R&D advances and interest was \$1,071,727.

On 20 September 2019, the Company announced that the Japan Patent Office (JPO) had Granted a second patent for wholly owned RECCE® antibiotics, including lead compound RECCE® 327, furthering marketing/manufacturing monopolies and expanding clinical indications. This second patent family, titled 'Copolymer for use in a method of treatment of a parenteral infection', contains 13 claims and relates to methods of manufacture, administration and application to treat a broad range of common human infections, providing Recce intellectual property protection to November 2035.

On 10 October 2019, the Company announced it had raised \$6,768,444 (before costs) in a placement to institutional, professional and sophisticated investors that resulted in 26,032,478 fully paid ordinary shares being issued at A\$0.26 per share.

On 23 October 2019, the Company announced that it had published a white paper providing pre-clinical and experimental data on its new synthetic antibiotics and outlining the market need, its anticipated market positioning and development strategy.

On 8 November 2019, the Company delivered the Opening R&D Address on 'How synthetic antibiotic development can change the antibiotic treatment model' at the World Anti-Microbial Resistance Congress in Washington.

On 27 November 2019, the Company reported positive data in a rat topical burns model from an assessment of its lead compound RECCE® 327 in addressing the unmet medical needs of burns treatment and associated difficulties in wound closure. The study was undertaken in co-operation with an established Australian teaching hospital, by an independent Contract Research Organisation (CRO). Top line results showed significant *in-vivo* antibacterial activity against Methicillin-Resistant *Staphylococcus aureus* (MRSA – superbug) in rats with topical burns: RECCE® 327 reduced bacterial load and enhanced wound closure. A separate human skin model showed the antibiotic was non-irritating, even at high concentrations.

On 10 February 2020, the Company announced successful *in-vivo* Toxicity (Safety) studies in small and large animal species, conducted by an industry leading independent research laboratory, has further reinforced indications of a wide therapeutic window.

On 14 February 2020, the Company announced positive efficacy data in a rat infection model for its RECCE® 327 antibiotic in the treatment of Kidney and Urinary Tract Infections (UTIs) caused by *Escherichia coli* (*E. Coli*), which can often progress to sepsis.

On 8 April 2020, the Company announced it had formalised a Phase I clinical trial agreement to conduct a first-in-human study of its lead compound RECCE® 327 in 40 healthy subjects. The Phase I clinical study of RECCE® 327 will be conducted at a specialised clinical trial facility in Australia, independent of the hospital system. This initiative seeks to ensure continuity of the independent study and not add to infectious disease pressures for beds around the country. The first patients in this study are expected to be dosed in the second half of 2020.

On 20 April 2020, the Company announced positive efficacy data showing significant *in-vivo* anti-viral activity against the Influenza A virus in mice treated with its lead compound RECCE® 327.

On 23 April 2020, the Company announced positive data showing significant *in-vivo* antibacterial activity against Methicillin-Resistant *Staphylococcus aureus* (MRSA superbug) in rats with topical burns treated with its lead compound RECCE® 327.

On 4 May 2020, the Company announced positive efficacy showing significant antibacterial activity against *Neisseria gonorrhoeae* bacteria in mice treated with its lead compound RECCE® 327.

On 26 June 2020, the Company announced that the milestone associated with 7,398,174 of the Company's Class C unquoted Performance Shares had been achieved.

Results of Operations

The operating loss has increased to \$4,316,737 (2019: loss of \$2,789,197) as a result of the increased focus on its R&D activities. The annual loss was after a R&D tax incentive of \$1,071,727 (2019: \$679,624).

The loss per share has increased during the year to 3.39 cents (2019: 2.95 cents).

The Group's focus is on progressing RECCE® 327 into human clinical trials.

Dividends Paid or Recommended

No dividends have been paid or declared for payment during the year and at the date of this report.

Options

During the financial year, the Company issued 2,500,000 (2019: 1,800,000) options to acquire ordinary shares in the Company at various exercise prices and dates as disclosed in Note 18 to the consolidated financial statements. 1,963,736 options were exercised for \$558,653 during the financial year (2019: nil).

Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the year.

Environment Issues

The Group's operations are not subject to significant environmental regulations under the law of the Commonwealth or of a State or Territory. The policy is to comply with or exceed its environmental obligations in each jurisdiction in which it operates. No known environmental breaches have occurred.

Future Developments, Prospects and Business Strategies

The Group continues its strategy of having its antibiotic drug tested for safety, efficacy and chemistry to enable the Group to lodge its application for Investigational New Drug (IND) status with the Food and Drug Administration (FDA) in the USA.

Events Subsequent to Reporting Period

Subsequent to year end:

- Dr Graham Melrose resigned as a Director and Chief Research Officer effective 3 July 2020
- Mr Alan W Dunton was appointed as a Non-Executive Director effective 9 July 2020
- The conversion of 7,398,174 Class C Performance Shares and 698,840 Unlisted Options, with varying exercise prices and expiry dates resulted in the issue of 8,090,714 ordinary fully paid shares
- The milestones associated with 7,398,174 of the Company's Class D unquoted Performance Shares was achieved. The Company will seek quotation for 7,398,174 fully paid ordinary shares

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Other than the above, no matters or circumstances have arisen since the end of the financial year, 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 years.

Going Concern

The Directors believe that the Group is in a position to meet all its commitments as and when they fall due. Refer to Note 3 to the consolidated financial statements for further details.

Insurance of Officers

During the financial year, the Company paid a premium for an insurance policy insuring all Directors and Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against the amount of the premium.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

Proceedings on Behalf of Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

Remuneration Report (Audited)

The remuneration report details the Key Management Personnel ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors.

For the purposes of this Remuneration Report, KMP includes the following Directors and Senior Executives who were engaged by the Company at any time during the year ended 30 June 2020:

(i) Directors

Dr John Prendergast	Non-Executive Chairman (appointed 9 July 2019)
Dr Graham Melrose	Executive Director (resigned 3 July 2020)
Ms Michele Dilizia	Executive Director
Mr James Graham	Executive Director
Mr Justin Ward	Executive Director (appointed 9 July 2019)
Dr Alan Dunton	Non-Executive Director (appointed 14 July 2020)

(ii) Key Management Personnel

Mr Arthur Kollaras ¹	Principal Engineer
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¹ Entered into a consultancy agreement with the Company effective 1 August 2019.

The Remuneration Report covers the following matters:

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

(A) Principles Used to Determine the Nature and Amount of Remuneration

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

Executive Remuneration

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

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

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

The Group's reward policy reflects its obligation to align executive's remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of the Group. The principles underpinning the Group's remuneration policy are that:

- Reward reflects the competitive global market in which we operate;
- Rewards to executives are linked to creating value for shareholders;
- Remuneration arrangements are equitable and facilitate the development of senior management across the consolidated entity; and
- Where appropriate senior managers may receive a component of their remuneration in equity securities to align their interests with those of the shareholders.

The total remuneration of executives and other senior managers consists of the following:

- (a) Salary - Executive Directors and senior managers receive a sum payable monthly in cash;
- (b) Long-term incentives - Executive Directors may participate in share option/performance right schemes with the prior approval of shareholders. Other senior managers may also participate in employee share option/performance right schemes, with any option/performance right scheme, with any option/performance rights issues generally being made in accordance with thresholds set in

plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue options/performance rights to executives outside of approved employee option/performance right plans in exceptional circumstances; and

- (c) Other benefits – Executive Directors and senior managers are eligible to participate in superannuation schemes and other appropriate additional benefits.

Non-Executive Remuneration

Shareholders approve the maximum aggregate remuneration for Non-Executive Directors. The full Board recommends the actual payments to Directors and the Board is responsible for ratifying any recommendations, if appropriate. The maximum approved aggregate remuneration approved for Non-Executive Directors is currently \$180,000.

It is recognised that Non-Executive Directors' remuneration is ideally structured to exclude equity based remuneration. However, whilst the Group remains small, and the full Board, including the Non-Executive Directors are included in the operations of the Group more closely than may be the case with larger companies, the Non-Executive Directors are entitled to participate in equity based remuneration schemes subject to shareholders approval.

The Directors believed that as at this stage, there is no relationship between the remunerations policy and performance.

All Directors are entitled to have their indemnity insurance paid by the Group.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

(B) Executive Service Agreements

Name	Base Salary	Performance-Based Incentives	Term	Notice Period
Dr John Prendergast	\$120,000 pa	Nil	No fixed term	3 months
Dr Graham Melrose	\$220,000 pa	Nil	5 years effective from 1 July 2015	3 months
Ms Michele Dilizia	\$170,000 pa	Nil	No fixed term	3 months
Mr James Graham	\$170,000 pa	Nil	No fixed term	3 months
Mr Justin Ward ¹	-	Nil	No fixed term	4 weeks
Mr Arthur Kollaras ²	-	Nil	No fixed term	4 weeks

1 Entered into an employment agreement with the Company effective 1 January 2020. Remunerated at \$170 per hour plus 9.5% Superannuation based on a one-day per week basis. Overtime pay of \$250 per hour plus 9.5% Superannuation.

2 Entered into a consultancy agreement with the Company effective 1 August 2019. Remunerated at the rate of \$450 per hour.

(C) Details of Remuneration

Director and other KMP Remuneration

Details of the nature and amount of each element of the remuneration of each KMP are shown in the table below:

Year ended 30 June 2020

Name	Short-term benefits, cash salary and fees \$	Accrued Long Service Leave \$	Superannuation (post-employment benefit) \$	Termination payments \$	Other benefits \$	Share-based payments \$	Total \$	Percentage Performance Related %
Directors								
G Melrose	220,000	29,356	20,900	-	-	-	270,256	-
M Dilizia	177,500	23,010	16,862	-	-	-	217,373	-
J Graham	186,646	11,544	17,731	-	-	-	215,921	-
J Prendergast	120,000	-	-	-	-	-	120,000	-
J Ward	144,989	5,714	13,774	-	-	10,000	174,477	-
Executives								
A Kollaras ¹	153,774	-	1,540	-	-	9,999	165,313	-
	1,002,909	69,624	70,808	-	-	19,999	1,163,340	

1 Entered into a consultancy agreement with the Company effective 1 August 2019.

Year ended 30 June 2019

Name	Short-term benefits, cash salary and fees \$	Accrued Long Service Leave \$	Superannuation (post-employment benefit) \$	Termination payments \$	Other benefits \$	Share-based payments \$	Total \$	Percentage Performance Related %
Directors								
G Melrose ¹	220,000	23,533	20,900	-	-	-	264,433	-
M Dilizia	155,000	14,551	14,725	-	-	-	184,276	-
J Graham	155,000	7,255	14,725	-	-	-	176,980	-
J Prendergast ²	50,000	-	-	-	-	-	50,000	-
Executives								
J Ward ³	133,723	2,599	12,704	-	-	-	149,026	-
A Kollaras	174,041	3,333	16,534	-	-	-	193,908	-
	887,764	51,271	79,588	-	-	-	1,018,623	

1 G Melrose assumed the role of Executive Director effective 9 July 2019 (formerly Executive Chairman).

2 J Prendergast was appointed Non-Executive Chairman 9 July 2019.

3 J Ward was appointed Director effective 9 July 2019.

(D) Share-Based Remuneration

Year Ended 30 June 2020

(i) Issue of ordinary shares

The following shares were issued on 19 December 2019 after approval at the Annual General Meeting on November 2019 as part of remuneration under a share-based payment.

Name	Shares issued	
	No.	\$
Executives		
J Ward	43,478	10,000
A Kollaras ¹	44,444	9,999
	87,922	19,999

1 Entered into a consultancy agreement with the Company effective 1 August 2019.

(ii) Issue of options

There were no options issued to Directors or KMP as part of their compensation during the year ended 30 June 2020.

(iii) Issue of performance shares

There were no performance shares issued to Directors or KMP as part of their compensation during the year ended 30 June 2020.

Year Ended 30 June 2019

(i) Issue of ordinary shares

The following shares were issued on 15 February 2019 under an entitlement previously disclosed in the 2018 accounts.

Name	Shares to be issued	
	No.	\$
Director – Non-Executive		
J Prendergast	250,000	46,250
Executives		
J Ward ¹	57,143	10,000
A Kollaras	85,714	15,000
	392,858	71,250

1 Appointed a director 9 July 2019.

(ii) Issue of options

There were no options issued to Directors or KMP as part of their compensation during the year ended 30 June 2019.

(iii) Issue of performance shares

There were no performance shares issued to Directors or KMP as part of their compensation during the year ended 30 June 2019.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

Details of Performance Shares issued

There were no new performance shares on issue for the year ended 30 June 2020 and 2019.

A summary of performance shares on issue is as follows:

Name	Performance Shares		
	Class B	Class C	Class D
Directors			
G Melrose	6,075,000	6,075,000	6,075,000
M Dilizia	577,212	577,212	577,212
J Graham	745,962	745,962	745,962
	7,398,174	7,398,174	7,398,174
Value per performance share	\$0.20 ¹	\$0.111 ²	\$0.054 ²

1 Class B performance shares have a non-market vesting condition i.e. the Company is awarded the US Food and Drug Administration's Investigational New Drug (IND) status on or before 19 August 2020. The multiplicity of the inter-dependent variables required for the achievement of IND status means there is no statistical data to support the probability of Class B performance shares vesting. Accordingly, the calculated value of \$0.20 per share was not recognised as it is unlikely the shares will vest.

2 The Class C and Class D performance shares were expensed in full during the 30 June 2016 financial year.

The Trinomial option pricing model has been used to calculate the value of the performance shares.

The following assumptions were used:

	Class B	Class C	Class D
Underlying share price	\$0.20	\$0.20	\$0.20
20-day VWAP barrier	N/A	\$0.60	\$1.20
Term	5 Years	5 Years	5 Years
Risk-free rate	2.18%	2.18%	2.18%
Number of Initial Performance Shares Issued	8,754,423	8,754,423	8,754,423
Probability of reaching milestone	0%	N/A	N/A

Equity Instrument Disclosures Relating to KMP

(a) Ordinary Shares

The movement of the numbers of shares in the Company for the year ended 30 June 2020 held by the Directors of the Company and other KMP of the Group, including their personally related parties, are set out below.

Name	Balance at 1 July 2019	Net Change Other ²	Share-based Payment ¹	Balance at Date of Resignation	Balance at 30 June 2020
Directors					
G Melrose	30,375,003	-	-	-	30,375,003
M Dilizia	2,886,061	(322,000)	-	-	2,564,061
J Graham	4,299,851	192,307	-	-	4,492,158
J Prendergast	250,000	-	-	-	250,000
Executives					
J Ward	115,488	-	43,478	-	158,966
A Kollaras	22,711	-	44,444	-	67,155
	37,949,114	(129,693)	87,922	-	37,907,343

1 Issued 19 December 2019.

2 Ms Michele Dilizia sold on-market 322,000 shares between 2 and 8 August 2019. Mr James Graham acquired 192,307 shares through participation in the share placement in October 2019.

(b) Performance Shares

The movement of the numbers of performance shares in the Company for the year ended 30 June 2020 held by the Directors of the Company and other KMP of the Group, including their personally related parties, are set out below.

Name	Balance at 1 July 2019	Granted	Lapsed Unexercised	Balance at Date of Resignation	Balance at 30 June 2020
Directors					
G Melrose	18,225,000	-	-	-	18,225,000
M Dilizia	1,731,636	-	-	-	1,731,636
J Graham	2,237,886	-	-	-	2,237,886
J Prendergast	-	-	-	-	-
Executives					
J Ward	-	-	-	-	-
A Kollaras	-	-	-	-	-
	22,194,522	-	-	-	22,194,522

Performance Shares Awarded, Vested and Lapsed During the Year

The tables below disclose the number of performance shares granted to KMP as remuneration as well as the number of performance shares that vested or lapsed/forfeited during the year.

Performance shares do not carry any voting or dividend rights and will convert once the vesting conditions have been met.

Performance Shares Outstanding at 30 June 2020

Class B Performance Shares

Name	Year Granted	Number Granted	Grant Date Value Per Share	Vested %	Number of Vested Shares ¹	Forfeited %	Financial Years in which Shares May Vest	Maximum Value Yet to Vest \$
Directors								
G Melrose	2015	6,075,000	\$0.20	-	-	-	¹	1,215,000
M Dilizia	2015	577,212	\$0.20	-	-	-	¹	115,442
J Graham	2015	745,962	\$0.20	-	-	-	¹	149,192
		7,398,174		-	-	-		1,479,634

1 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.

For remuneration purposes the value is the number of performance shares granted, multiplied by the share price at date of grant. As at 30 June 2020, these performance shares have not converted into fully paid ordinary shares and each performance share was valued at \$0.20 based on a share price at grant date. At 30 June 2020, no expense has been recognised in respect of these performance shares as a 0% probability has been assigned to meeting the milestone.

Class C Performance Shares

Name	Year Granted	Number Granted	Grant Date Value Per Share	Vested %	Number of Vested Shares	Forfeited %	Financial Years in which Shares May Vest	Maximum Value Yet to Vest \$
Directors								
G Melrose	2015	6,075,000	\$0.111	-	-	-	¹	6,075,000
M Dilizia	2015	577,212	\$0.111	-	-	-	¹	577,212
J Graham	2015	745,962	\$0.111	-	-	-	¹	745,962
		7,398,174		-	-	-		7,398,174

1 The milestone associated with Class C Performance Shares was achieved during the year ended 30 June 2020 i.e. the volume weighted average price of Shares as traded on ASX over 20 consecutive trading days on which the Shares are traded was not less than \$0.60. Accordingly, the shares were eligible to be converted to ordinary shares during the year but were converted on 9 July 2020.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

Class D Performance Shares

Name	Year Granted	Number Granted	Grant Date Value Per Share	Vested %	Number of Vested Shares	Forfeited %	Financial Years in which Shares May Vest	Maximum Value Yet to Vest \$
Directors								
G Melrose	2015	6,075,000	\$0.054	-	-	-	¹	328,050
M Dilizia	2015	577,212	\$0.054	-	-	-	¹	31,169
J Graham	2015	745,962	\$0.054	-	-	-	¹	40,282
		7,398,174		-	-	-		399,501

¹ These performance shares may vest in any year up until 20 August 2020.

The share-based payments expense on the Class C and D Performance shares were recognised during the year ended 30 June 2016.

(E) Other Transactions with KMP

During the financial year, the Group did not have any other transactions with key management personnel.

(F) Other Information

Loans to key management personnel

The prior year unsecured loan outstanding of \$150,000 from Dr Graham Melrose was repaid during the financial year in full. Any other loans during the year had been repaid by balance date. Interest paid or payable to Dr Melrose for the year ended 30 June 2020 totalled \$5,732.88 (2019: \$8,854.52).

There were no other loans, payables, receivables or other transactions at the end of the financial year with Directors and other KMP and their related parties of the Company or the Group.

Two strikes Rule in Respect to the Adoption of the Remuneration Report

The Corporations Act 2001 includes a 'two strikes' rule with regard to the adoption of Remuneration Reports. The 'two strikes' rule provides that if 25% or more of the votes cast on the resolution to adopt the Remuneration Report at two consecutive Annual General Meetings are against the resolution, the Company must at the later Annual General Meeting put a resolution to the shareholders proposing to convene another shareholder meeting to consider the spill of the Board ('Spill Resolution').

Under the Corporations Act 2001, the Company must have a minimum of three Directors at all times. The Corporations Act 2001, provides guidance in circumstances where either or both of the Directors are not re-elected by way of ordinary resolution, then they will be taken to have been appointed as Directors by resolutions passed at the Spill Meeting so that the Company maintains the required three Directors.

For the purposes of determining the length of time in office for future retirements by rotation, each Director who is re-elected at the Spill Meeting is considered to have been in office from the time of their previous rotation.

At the Annual General Meeting held in November 2019, the Company received a 'Yes' vote of more than 96.3% on its Remuneration Report for the 2019 financial year. The group did not receive any specific remuneration related feedback from shareholders at that meeting.

END OF REMUNERATION REPORT (AUDITED)

Meetings of Directors

During the financial year, 12 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Committee Meetings					
	Directors' Meetings		Audit & Risk Management Committee		Nomination & Remuneration Committee	
	A	B	A	B	A	B
Dr Graham Melrose	8	8	-	-	-	-
Ms Michele Dilizia	8	8	2	2	2	2
Mr James Graham	8	8	2	2	2	2
Dr John Prendergast	8	8	2	2	2	2
Dr Justin Ward	8	8	-	-	-	-

A = Number of meetings eligible to attend

B = Number of meetings attended

Non-Audit Services

During the year no payments were made to BDO Audit (WA) Pty Ltd, the auditor of the Group, for non-audit related services.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support the principal of corporate governance. The Company's corporate governance statement is available on the Company's website: www.recce.com.au.

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 stated.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2020 has been received and can be found on page 26.

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



Dr John Prendergast
Non-Executive Chairman

28 August 2020

AUDITOR'S INDEPENDENCE DECLARATION



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Subiaco, WA 6008
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Australia

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

As lead auditor of Recce Pharmaceuticals Ltd for the year ended 30 June 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Neil Smith', with a stylized flourish extending to the right.

Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 28 August 2020

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

CORPORATE GOVERNANCE STATEMENT

This corporate governance statement sets out Recce Pharmaceuticals Ltd's (**Company**) current compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Principles and Recommendations**). The ASX Principles and Recommendations are not mandatory. However, this

corporate governance statement discloses the extent to which the Company has followed the ASX Principles and Recommendations. This corporate governance statement is current as at 27 August 2020 and has been approved by the Board of the Company (**Board**).

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
1: Lay solid foundations for management and oversight		
1.1 A listed entity should have and disclose a charter which sets out the respective roles and responsibilities of the Board, the Chair and management; and includes a description of those matters expressly reserved to the Board and those delegated to management.	YES	The Company has adopted a Board Charter which complies with the guidelines prescribed by the ASX Corporate Governance Council. A copy of the Company's Board Charter is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.
1.2 A listed entity should:		
(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a Director; and	YES	(a) The Nomination and Remuneration Committee is responsible for recommendations to the Board for the selection and appointment of members of the Board. The Company's Nomination and Remuneration Committee Charter requires the Nomination and Remuneration Committee to undertake appropriate checks before the Board appoints a person, or putting forward to security holders a candidate for election, as a Director.
(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	YES	(b) All material information relevant to the decision on whether or not to elect Dr Alan Dunton (and any other potential Directors, as the case may be), including information relating to his qualifications, experience and proposed roles within the Board will be set out in the Notice of Meeting which will be sent to all shareholders ahead of the Annual General Meeting to be held in November 2020.

CORPORATE GOVERNANCE STATEMENT CONTINUED

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
1.3 A listed entity should have a written agreement with each Director and Senior Executive setting out the terms of their appointment.	YES	The Company has written agreements with all Directors and Senior Executives which sets out the terms of their appointment.
1.4 The Company Secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.	YES	The Company Secretary has been appointed by and is responsible to the Board through the Chairman. The Company Secretary is accessible to all Directors.
1.5 A listed entity should:		
(a) Have a diversity policy which includes requirements for the Board:	YES	(a) The Company has adopted a Diversity Policy which complies with the guidelines prescribed by the ASX Corporate Governance Council, including:
(i). to set measurable objectives for achieving gender diversity; and		(i) the Diversity Policy provides a framework for the Company to set and achieve measurable objectives that encompass gender equality.
(ii). to assess annually both the objectives and the entity's progress in achieving them;		(ii) the Diversity Policy provides for the monitoring and evaluation of the scope and currency of the Diversity Policy. The Company is responsible for implementing, monitoring and reporting on the measurable objectives.
(b) Disclose that policy or a summary of it; and	YES	
(c) Disclose as at the end of each reporting period:		
(i) the measurable objectives for achieving gender diversity set by the Board in accordance with the entity's diversity policy and its progress towards achieving them; and	YES	
(ii) either:		
(A) The respective proportions of men and women on the Board, in Senior Executive positions and across the whole organisation (including how the entity has defined 'Senior Executive' for these purposes); or	YES	(b) The Diversity Policy is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance .
(B) The entity's 'Gender Equality Indicators', as defined in the Workplace Gender Equality Act 2012.	N/A	(c) The Company strives to achieve the measurable objectives for achieving gender diversity as set out in the Diversity Policy. As at 30 June 2020, the respective proportions of men and women on the Board, in Senior Executive positions and across the whole organisation are set out below. • 80% of the Company's Board were male and 20% were female; • 100% of the Company's Senior Executives were male (excluding members of the Board) 33% of the Group's entire workforce (including Board members) were female and 67% were male.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
1.6 A listed entity should:		
(a) Have and disclose a process for periodically evaluating the performance of the Board, its committees and individual directors; and	YES	(a) The Nomination and Remuneration Committee is responsible for evaluating the performance of the Board and individual Directors on an annual basis. The process for this is set out in the Company's Nomination and Remuneration Committee Charter which is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance .
(b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	YES	(b) Although the Nomination and Remuneration Committee did not undertake a performance evaluation of the Company's board or its individual Directors during the financial year to 30 June 2020, such a review was conducted by the Board of the Company. The Company expects that an evaluation of the Company's board and/or its individual Directors will be conducted during the financial year ended 30 June 2021.
1.7 A listed entity should:		
(a) Have and disclose a process for periodically evaluating the performance of its Senior Executives; and	YES	(a) The Nomination and Remuneration Committee is responsible for evaluating the performance of Senior Executives on an annual basis in accordance with the Company's Nomination and Remuneration Committee Charter.
(b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	YES	(b) Although the Nomination and Remuneration Committee did not undertake a performance evaluation of the Company's senior executives during the financial year to 30 June 2020, such a review was conducted by the Board of the Company. At the date of this report, the Nomination and Remuneration committee is in the process of completing such as review.

CORPORATE GOVERNANCE STATEMENT CONTINUED

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
2: Structure the board to add value		
2.1 The board of a listed entity should:		
(a) have a nomination committee which:		(a) The Company has established a Nomination and Remuneration Committee with Dr Alan Dunton as Chair of the Committee. The Committee has three members. Since the appointment of Dr Alan Dunton to the committees on 14 July 2020 two of the three committee members are independent, non-executive directors. The attendance at each committee meeting is disclosed in section 25 of the Directors' Report. A copy of the Nomination and Remuneration Committee Charter is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance .
(1) has at least three members, a majority of whom are independent directors; and	YES	
(2) is chaired by an Independent Director, and disclose:	YES	
(3) the charter of the committee;	YES	
(4) the members of the committee; and	YES	
(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	YES	
(b) If it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	N/A	
2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.	YES	The Company has a skills matrix which is disclosed on the Company's website at https://recce.com.au/index.php/company/corporate-governance .
2.3 A listed entity should disclose:		
(a) the names of the Directors considered by the Board to be Independent Directors;	YES	(a) Dr John Prendergast and Dr Alan Dunton (appointed 14 July 2020), are the only Directors of the Company considered independent.
(b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and recommendations (3rd Edition) but the Board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and	YES	(b) Dr John Prendergast and Dr Alan Dunton (appointed 14 July 2020), are the only two Directors of the Company considered independent, have not had an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and recommendations (3rd Edition).
(c) the length of service of each Director.	YES	(c) The Company has disclosed the details of each Director (including their length of service) in the Company's Annual Report.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
2.4 A majority of the Board of a listed entity should be Independent Directors.	NO	The Board Charter requires that where practical the majority of the Board will be independent. The Board currently comprises a total of five Directors, of whom two are considered to be independent, being Dr John Prendergast and Dr Alan Dunton (appointed 14 July 2020). The Board does not currently consider an independent majority of the Board to be appropriate given: (a) The magnitude of the Company's operations; and (b) The relevant skills and experience of Ms Dilizia, Mr Graham Dr Ward, Dr Prendergast and Dr Dunton mean that the Board is appropriately skilled at this stage, to further the progress and development of the Company.
2.5 The chair of the board of a listed entity should be an Independent Director and, in particular, should not be the same person as the CEO of the entity.	YES	The Company's Independent, Non-Executive Chairman is Dr John Prendergast, who is not the CEO of the Company.
2.6 A listed entity should have a program for inducting new Directors and providing appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.	YES	The Nomination and Remuneration Committee is responsible to the Board for reviewing and recommending to the Board induction and professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities. As a result, the Company has in place a program for the induction of new Directors which is tailored to each new Director depending on their personal requirements, background skills, qualifications and experience and includes the provision of a formal letter of appointment and an induction pack containing sufficient information to allow the new Director to gain an understanding of the business of the Company, and the roles, duties and responsibilities of Directors and the Executive Team. All Directors are encouraged to undergo continual professional development and, subject to prior approval by the Chairman, all Directors have access to numerous resources and professional development training to address any skills gaps.

CORPORATE GOVERNANCE STATEMENT CONTINUED

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
3: Promote ethical and responsible decision-making		
3.1 A listed entity should:		
(a) Have a code of conduct for its Directors, Senior Executives and employees; and	YES	(a) The Company has a Code of Conduct – the Company's Obligations to Stakeholders that applies to all.
(b) Disclose that code or a summary of it.	YES	(b) The Company's Code of Conduct – the Company's Obligations to Stakeholders is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance .
4: Safeguard integrity in financial reporting		
4.1 The Board of a listed entity should:		
(a) have an audit committee which:		The Company has established an Audit and Risk Management Committee with Dr Dunton, an Independent Director of the Company, as Chair of the Committee. Since the appointment of Dr Alan Dunton to the committees on 14 July 2020 two of the three committee members are independent, non-executive directors. The attendance at each committee meeting is disclosed in section 25 of the Directors' Report. A copy of the Audit and Risk Management Committee Charter is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance .
(1) has at least three members, all of whom are Non-Executive Directors and a majority of whom are independent Directors; and	YES	
(2) is chaired by an Independent Director, who is not the Chair of the Board,	YES	
and disclose:		
(3) the charter of the committee;	YES	
(4) the relevant qualifications and experience of the members of the committee; and	YES	
(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	YES	
(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	N/A	
4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	YES	Prior to the execution of the Financial Statements of the Company, the Company's Executive Director and CFO provided the Board with written assurances that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control which is operating effectively in all material aspects in relation to the Company's financial reporting risks.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	YES	At the last AGM of the company, held on 25 November 2019 the external auditor of the Company attended this meeting and it is expected that the Company's external auditor will attend future AGMs and is available to answer questions from security holders relevant to the audit.
5: Make timely and balanced disclosure		
5.1 A listed entity should:		
(a) Have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and	YES	(a) The Company has adopted a Continuous Disclosure Policy which details the processes and procedures which have been adopted by the Company so as to comply its continuous disclosure obligations as required under the ASX Listing Rules and other relevant legislation.
(b) disclose that policy or a summary of it.	YES	(b) The Continuous Disclosure Policy is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance .
6: Respect the rights of shareholders		
6.1 A listed entity should provide information about itself and its governance to investors via its website	YES	Shareholders can access information about the Company and its governance (including its Constitution and adopted governance policies) from the Company's website at https://recce.com.au/index.php/company/corporate-governance .
6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	YES	The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with its investors. The Strategy outlines a range of ways in which information is communicated to shareholders. A copy of the Company's Shareholder Communications Strategy policy is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.
6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	YES	Security holders have the ability to communicate with Directors through various means including: • having the opportunity to ask questions of Directors at all general meetings; • the presence of the Auditor at AGMs to take shareholder questions on any issue relevant to their capacity as Auditor; and • the Company having Directors available to answer shareholder questions submitted by telephone, email and other means (where appropriate). Traditionally, the key forum for two-way communication between the Company and its Security holders is its AGM.

CORPORATE GOVERNANCE STATEMENT CONTINUED

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	YES	Security holders can register with the Company to receive email notifications when an announcement is made by the Company to the ASX. Security holders can also elect to receive electronic communications via the Company's registry, Automatic Registry Services.

7: Recognise and manage risk

7.1 The Board of a listed entity should:

(a) have a committee or committees to oversee risk, each of which:

(1) has at least three members, a majority of whom are Independent Directors; and

(2) is chaired by an Independent Director, and disclose:

(3) the charter of the committee;

(4) the members of the committee; and

(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

(b) If it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

YES

YES

YES

YES

YES

N/A

The Company has established an Audit and Risk Management Committee with Dr Dunton, an independent Director of the Company, as Chair of the Committee. Since the appointment of Dr Alan Dunton to the committees on 14 July 2020 two of the three committee members are independent, non-executive directors. The attendance at each committee meeting is disclosed in section 25 of the Directors' Report. A copy of the Audit and Risk Management Committee Charter is available on the Company's website at <https://recce.com.au/index.php/company/corporate-governance>.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
7.2 The Board or a committee of the board should:		
(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure they remain within the risk appetite set by the Board; and	YES	(a) The Audit and Risk Management Committee Charter sets out a requirement for the Audit and Risk Management Committee to review the Company's risk management framework on an annual basis. The Company monitors, evaluates and seeks to improve its risk management and internal control processes in line with the processes set out in its Risk Management Policy, a copy of which is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance . In addition, the Company has a number of other policies that directly or indirectly serve to reduce and/or manage risk, including: • Continuous Disclosure Policy • Code of Conduct • Trading Policy
(b) Disclose in relation to each reporting period, whether such a review has taken place.	YES	(b) The Audit and Risk Management Committee completed such a review during the current reporting period.
7.3 A listed entity should disclose:		
(a) If it has an internal audit function, how the function is structured and what role it performs; or	N/A	(a) The Audit and Risk Management Committee Charter provides for the Audit and Risk Management Committee to monitor the need for an internal audit function. At this stage, due to the current size and nature of the existing Board and the magnitude of the Company's operations the Company does not have an internal audit function.
(b) If it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	YES	(b) The Company has adopted a Risk Management Policy which the Company follows. The Board of the Company and the Audit and Risk Management Committee will periodically review the Company's operations to evaluate the effectiveness of risk management and internal control processes of the Company.
7.4 A listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	YES	All material risks to economic, environmental and social sustainability risks will be announced to the market, in accordance with the requirements of the ASX Listing Rules and otherwise.

CORPORATE GOVERNANCE STATEMENT CONTINUED

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
8: Remunerate fairly and responsibly		
8.1		
(a) The Board of a listed entity should have a remuneration committee which:		The Company has established a Nomination and Remuneration Committee with Dr Dunton, an independent Director of the Company, as Chair of the Committee. Since the appointment of Dr Alan Dunton to the committees on 14 July 2020 two of the three committee members are independent, non-executive directors. The attendance at each committee meeting is disclosed in section 25 of the Directors' Report. A copy of the Nomination and Remuneration Committee Charter is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance .
(1) has at least three members, a majority of whom are independent directors; and	YES	
(2) is chaired by an independent director, and disclose:	YES	
(3) the charter of the committee;	YES	
(4) the members of the committee; and	YES	
(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	YES	
(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and Senior Executives and ensuring that such remuneration is appropriate and not excessive.	N/A	
8.2 A listed entity should separately disclose its policies and practices regarding the Remuneration of Non-Executive Directors and other Senior Executives and ensure that the different roles and responsibilities of Non-Executive Directors compared to Executive Directors and other Senior Executives are reflected at the level and composition of their remuneration.	YES	The Company's Corporate Governance Plan requires the Board to disclose its policies and practices regarding the remuneration of Non-Executive and Executive Directors and other senior employees. This disclosure is set out in the Remuneration Report section of the Company's Annual Report.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
8.3 A listed entity which has an equity-based remuneration scheme should:		
(a) Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and	YES	(a) The Company's Nomination and Remuneration Committee is responsible for the review and recommendation to the Board of any equity-based remuneration schemes offered to Directors and employees of the Company. Further, in accordance with the Nomination and Remuneration Committee Charter, the Nomination and Remuneration Committee is also responsible for recommending, on a case by case basis, for scheme participants to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Scheme.
(b) Disclose that policy or a summary of it.	YES	(b) The Company's policy in this regard is set out in the Company's Nomination and Remuneration Committee Charter, a copy of which is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance .

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$	2019 \$
OTHER INCOME	5	1,147,530	686,622
EXPENSES			
Laboratory expenses		(1,985,286)	(416,353)
Employee benefits expenses	6	(1,478,668)	(1,383,692)
Share-based payments expense	22	(55,204)	-
Depreciation and amortisation expenses	12	(50,711)	(54,962)
Travel expenses		(191,488)	(185,363)
Patent related costs		(85,620)	(59,805)
Rental outgoings expenses		(52,780)	(212,510)
Finance costs	6	(45,847)	(56,694)
Other expenses	6	(1,357,960)	(1,106,440)
Amortisation: Leases	13	(150,107)	-
Interest expense: Leases		(10,596)	-
		(5,464,267)	(3,475,819)
LOSS BEFORE INCOME TAX		(4,316,737)	(2,789,197)
Income tax expense	8	-	-
LOSS FOR THE YEAR		(4,316,737)	(2,789,197)
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(4,316,737)	(2,789,197)
		Cents	Cents
LOSS PER SHARE ATTRIBUTABLE TO THE OWNERS OF RECCE PHARMACEUTICALS:			
Basic loss per share for the year	9	(3.39)	(2.95)
Diluted loss per share for the year	9	(3.39)	(2.95)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF
FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	30 June 2020 \$	30 June 2019 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	2,682,192	403,384
Trade and other receivables	11	41,364	36,517
Other current assets		15,848	13,200
TOTAL CURRENT ASSETS		2,739,404	453,101
NON-CURRENT ASSETS			
Plant and equipment	12	424,316	469,083
Right of use asset	13	80,387	-
TOTAL NON-CURRENT ASSETS		504,703	469,083
TOTAL ASSETS		3,244,107	922,184
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	495,499	320,522
Financial liabilities	15	-	737,408
Provisions for employee benefits	16	306,492	215,410
Lease Liabilities	17	83,235	-
TOTAL CURRENT LIABILITIES		885,226	1,273,340
NON-CURRENT LIABILITIES			
Provisions for employee benefits	16	46,301	54,448
TOTAL NON-CURRENT LIABILITIES		46,301	54,448
TOTAL LIABILITIES		931,527	1,327,788
NET ASSETS/(LIABILITIES)		2,312,580	(405,604)
EQUITY			
Share capital	18	18,466,336	11,573,369
Reserves	19	1,804,503	1,662,549
Accumulated losses		(17,958,259)	(13,641,522)
TOTAL EQUITY/(DEFICIENCY OF NET ASSETS)		2,312,580	(405,604)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2020

	Share Capital \$	Reserves \$	Accumulated Losses \$	Total \$
BALANCE AT 1 JULY 2018	10,031,509	1,515,731	(10,852,325)	694,915
COMPREHENSIVE INCOME:				
Loss for the year	-	-	(2,789,197)	(2,789,197)
Other comprehensive loss	-	-	-	-
	-	-	(2,789,197)	(2,789,197)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:				
Conversion of performance shares	-	-	-	-
Issuance of shares	1,688,678	-	-	1,688,678
Options cost expenses on placement	(146,818)	146,818	-	-
Conversion of convertible notes	-	-	-	-
Share-based payments	-	-	-	-
	1,541,860	146,818	-	1,688,678
BALANCE AT 30 JUNE 2019	11,573,369	1,662,549	(13,641,522)	(405,604)
BALANCE AT 1 JULY 2019	11,573,369	1,662,549	(13,641,522)	(405,604)
COMPREHENSIVE INCOME:				
Loss for the year	-	-	(4,316,737)	(4,316,737)
Other comprehensive loss	-	-	-	-
	-	-	(4,316,737)	(4,316,737)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:				
Issuance of shares (net of cash-settled share issue costs)	6,271,063	-	-	6,271,063
Issuance of shares - Acuity Placement Deed	150,000	-	-	150,000
Options issued to lead manager as capital raising cost	(426,407)	426,407	-	-
Conversion of options into ordinary shares	558,653	-	-	558,653
Share-based payments	55,204	-	-	55,204
Transfer from reserves to share capital	284,454	(284,454)	-	-
	6,892,967	141,953	-	7,034,920
BALANCE AT 30 JUNE 2020	18,466,336	1,804,503	(17,958,259)	2,312,580

The accompanying notes form part of these consolidated financial statements.

CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$	2019 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Australian Taxation Office		1,284,670	679,624
Payments to suppliers and employees		(5,061,480)	(3,242,059)
Interest received		25,803	6,998
Interest and other costs of finance paid		(56,443)	(56,694)
NET CASH USED IN OPERATING ACTIVITIES	20	(3,807,450)	(2,612,131)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(5,944)	(89,931)
NET CASH USED IN INVESTING ACTIVITIES		(5,944)	(89,931)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	15	612,463	737,408
Repayments of borrowings	15	(1,349,870)	(2,859)
Advances from a shareholder		-	2,500
Repayment of lease liabilities	13	(150,107)	-
Proceed from issues of shares (net of cash costs)		6,979,716	1,688,678
NET CASH PROVIDED BY FINANCING ACTIVITIES		6,092,202	2,425,727
Net increase/decrease in cash and cash equivalents held		2,278,808	(276,335)
Cash and cash equivalent at the beginning of the year		403,384	679,719
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	10	2,682,192	403,384

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

1: Corporate Information

The consolidated financial statements of Recce Pharmaceuticals Ltd ('the Company') together with its controlled entities ('the Group') for the year ended 30 June 2020.

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

2: Significant Accounting Policies**(a) New or amended Accounting Standards and Interpretations adopted**

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases

The Company has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117.

For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The impact on the financial performance and position of the Company from the adoption of this Accounting Standard is detailed below.

The application of AASB 16 resulted in the recognition of right-of-use assets with an aggregate carrying amount of \$230,495 (referred to in these financial statements as 'Right of Use Assets') and corresponding lease liabilities with an aggregate carrying amount of \$230,495. The weighted average incremental borrowing rate applied in the calculation of the initial carrying amount of lease liabilities was 7.03%.

The following is a reconciliation of non-cancellable operating lease commitments disclosed at the end of the prior reporting period (i.e., at 30 June 2019) to the aggregate carrying amount of lease liabilities recognised at the date of the initial application (i.e., at 1 July 2019):

	\$
Aggregate on non-cancellable operating lease commitments at 30 June 2019	243,198
Less: impact of discounting lease payment to their present value at 1 July 2019	(12,703)
Carrying amount of lease liabilities recognised at 1 July 2019	230,495

Further detail of the Group's accounting policy for leases, for the year ended 30 June 2020, is as follows:

At the commencement date of a lease (other than leases of 12-months or less and leases of low value assets), the Group recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Lease assets

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before at or before the commencement date of the lease, less any lease incentive received, any initial direct costs incurred by the Group, and an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any remeasurement of the associated lease liability). Lease accumulated depreciation and any accumulated impairment loss. Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefit embodied in the underlying asset.

Lease liabilities

Lease liabilities are initially recognised at the present value of the future lease payment (i.e. the lease payments that are unpaid at the commencement date of the lease). These payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Group's incremental borrowing rate.

Subsequent to initial recognition, lease assets are measured at the present value of the remaining lease payments (i.e. the lease payments that are unpaid at the reporting date). Interest expense on lease liabilities is recognised in profit or loss (presented as a component

of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease and any lease modifications not accounted for as separate leases. Variable lease payments not included in the measurement of lease liabilities are recognised as an expenses when incurred.

Leases of 12-months or less and leases of low value assets

Lease payments made in relation to leases of 12-months or less and leases of low value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expenses on a straight-line basis over the lease term.

(b) Basis of Preparation of the Financial Report

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

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

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

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

The consolidated financial statements have been prepared on an accrual basis and are based on historical costs, except for the Consolidated Statement of Cash Flows.

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

(c) Basis of Consolidation

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

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

(d) Foreign Currency Translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting year. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss.

Foreign exchange gains and losses are presented in profit or loss on a net basis within other income or other expenses, unless they relate to borrowings, in which case they are presented as part of finance costs.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was measured.

(d) Foreign Currency Translation (Continued)

The functional currency of the subsidiaries is United States Dollars and British Pounds. At the end of the reporting year, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Recce Pharmaceuticals Ltd at the closing rate at the end of the reporting year and income and expenses are translated at the weighted average exchange rates for the year. All resulting exchange differences are recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

(e) Revenue Recognition

Interest Income

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

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Research and Development (R&D) Tax Incentive

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

(f) Income Tax

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

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

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

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

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

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

(g) Impairment of Non-Financial Assets

At the end of each reporting year the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing

value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(h) Cash and Cash Equivalents

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

(i) Fair Values

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

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

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

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

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

(j) Trade and Other Receivables

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward looking information to calculate the expected credit losses using a provision matrix.

The Group has determined that the application of AASB 9 – Financial Instrument's impairment requirements does not have a material impact on receivables.

(k) Plant and Equipment

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

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

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

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

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

Depreciation

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

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

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

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the assets' carrying amount and are included in profit or loss in the year that the item is derecognised.

(l) Research Expenditure

Research costs are expensed as incurred.

(m) Trade and Other Payables

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

(n) Borrowings

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

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

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

(o) Other Liabilities

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

(p) Employee Benefit Provisions

Short-term employee benefit obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled wholly within 12 months after the end of the reporting year are recognised in other liabilities in respect of employees' services rendered up to the end of the reporting year and are measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable.

Other long-term employee benefits obligations

Liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the reporting year. They are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting year. Consideration is given to expected future salaries and wages levels, experience of employee departures and years of service. Expected future payments are discounted using Australian corporate bond rates at the end of the reporting year with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Regardless of when settlement is expected to occur, liabilities for long service leave and annual leave are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting year.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

(q) Contributed Equity

Ordinary shares are classified as equity.

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

(r) Share-Based Payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

(s) Earnings/(Loss) Per Share*Basic earnings/(loss) per share*

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

Diluted earnings/(loss) per share

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

(t) Goods and Services Tax (GST)

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

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

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

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

(u) Accounting Standards Issued But Not Yet Effective

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

(v) Rounding of Amounts to Nearest Dollar

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

(w) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

Share-based payment transactions

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

For remuneration purposes the value is the number of performance shares granted, multiplied by the share price at date of grant. As at 30 June 2020, these performance shares have not converted into fully paid ordinary shares and each performance share was valued at \$0.20 based on a share price at grant date. At 30 June 2020, no expense has been recognised in respect of these performance shares as a 0% probability has been assigned to meeting the milestone.

Impairment of non-financial assets

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

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Company reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Recovery of deferred tax assets

The deferred tax assets as calculated under Note 8 have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

3: Going Concern

For the year ended 30 June 2020, the Group recorded a loss of \$4,316,737 and had net cash outflows from operating activities of \$3,807,450. The ability of the Group to continue as a going concern and being able to continue to fund its operating activities is dependent on securing additional funding through a share placement to new or existing investors and financial support through short-term loans, together with continuous receipt of the R&D tax rebate.

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

The Directors believe there will be sufficient funds to meet the Company's working capital requirements. Based on the success of current progress in the Group, it is considered that re-financing through equity funds would be well supported. Additional funds will be raised via share placements and/or other financing options as required.

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

- The Directors have prepared cashflow projections that support the ability of the Company to continue as a going concern, subject to raising additional funds through equity or other means as detailed above
- The Company continually receiving its Australian R&D tax rebates for R&D expenditure in Australia and overseas incurred by the Company

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

4: Segment Reporting

(a) Reportable segments

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

(b) Segment results

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

	Segment revenue and other income for the year		Segment loss after tax for the year	
	2020 \$	2019 \$	2020 \$	2019 \$
Australia	798,666	570,537	(1,470,517)	(893,240)
USA	348,095	116,085	(640,917)	(181,746)
UK	769	-	(1,416)	-
Central Administration	-	-	(2,203,886)	(1,714,211)
	1,147,530	686,622	(4,316,736)	(2,789,197)

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

(c) Segment assets and liabilities

	Segment assets at end of the financial year		Segment liabilities at end of the financial year	
	2020 \$	2019 \$	2020 \$	2019 \$
Australia	398,271	440,223	-	-
USA	-	-	-	-
Central Administration	2,845,835	481,961	931,527	1,327,788
UK	-	-	-	-
	3,244,107	922,184	931,527	1,327,788

(d) Segment net assets/(liabilities)

	2020 \$	2019 \$
Australia	398,271	440,223
USA	-	-
Central Administration	1,914,309	(845,827)
UK	-	-
	2,312,580	(405,604)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

2020
\$2019
\$**5: Revenue and Other Income****Other Income:**

Research and Development ('R&D') tax incentive	1,071,727	679,624
Interest income	25,803	6,998
Other income	50,000	-
Total other income	1,147,530	686,622

6: Expenses**Employee Benefits Expenses:**

Salaries and wages	1,328,040	1,231,798
Superannuation expenses	99,576	107,263
Long service leave expenses	21,209	22,018
Payroll taxes	29,843	22,543
Other employee related costs	-	70
Total employee benefit expenses	1,478,668	1,383,692

Finance Costs:

Interest from short-term borrowings	44,448	55,634
Bank fees and charges	1,399	1,060
Total finance costs	45,847	56,694

Other Expenses:

Audit fees	46,197	38,722
Communication expenses	8,225	8,395
Computer maintenance and consumables	28,165	7,508
Consulting fees	231,743	396,395
Insurance expenses	61,877	48,481
Legal expenses	106,176	128,200
Listing and regulatory fees	65,219	54,665
Printing and stationery expenses	36,537	14,571
Roadshows and conferences	115,274	117,599
Sundry expenses	658,547	290,778
Total other expenses	1,357,960	1,105,314

	2020 \$	2019 \$
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7: Auditor's Remuneration

During the year, the following fees were paid or payable for services to BDO Audit (WA) Pty Ltd (BDO) and its related practices (also referred to hereafter as BDO, network firms of BDO and non BDO firms):

Audit services

- BDO for audit and review of the consolidated financial statements	46,197	38,722
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8: Income Tax Expense

Loss before income tax	(4,316,737)	(2,789,197)
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The prima facie tax on loss from ordinary activities before income tax is reconciled to income tax as follows:

- Prima facie tax payable on loss from ordinary activities before income tax at 27.5% (2019: 27.5%)	(1,187,103)	(767,029)
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Add:

Non-allowable items:

- Share-based payments expense	15,181	-
- Expenses subject to R&D tax incentive	1,171,418	677,529
- Other non-allowable items	29,437	49,586

Less:

- Non assessable income	(308,475)	(187,080)
- Tax losses and deferred tax not recognised	279,542	226,994

Income tax attributable to the Group	-	-
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Deferred tax attributable to the Group

Tax losses carried forward	2,545,594	1,041,836
Accruals and provisions	105,304	87,658
Blackhole expenses	144,327	66,100
Patents	-	-
	2,795,225	1,195,594

The Group's ability to use losses in the future is subject to the companies in the Group satisfying the relevant tax authority's criteria for using these losses.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$	2019 \$
9: Loss Per Share		
The following reflects the loss and share data used in the calculations of basic and diluted losses per share:		
Loss attributable to the members of the Company	(4,316,737)	(2,789,197)
	No.	No.
Weighted average number of shares		
Weighted average number of ordinary shares used in calculating basic losses per share	127,208,104	94,473,428
	127,208,104	94,473,428
Loss per share (cents per share):		
Basic loss for the year attributable to the members of the Company	(3.39)	(2.95)
Diluted loss for the year attributable to the members of the Company	(3.39)	(2.95)
	2020 \$	2019 \$

10: Cash and Cash Equivalents

Cash at bank	2,682,152	403,286
Cash on hand	40	98
	2,682,192	403,384

Cash at bank and in hand bear floating interest rates between 0.51% and 1.30% depending on the amount on deposit. Refer to Note 21 for additional risk exposure analysis.

11: Trade and Other Receivables**CURRENT**

Sundry debtors	5,378	-
Net GST receivable	35,986	36,517
	41,364	36,517

Refer to Note 21 for additional risk exposure analysis.

	2020 \$	2019 \$
12: Plant and Equipment		
Laboratory machinery and equipment		
- at cost	507,449	504,074
- accumulated depreciation	(157,857)	(115,632)
	349,592	388,442
Office furniture and equipment		
- at cost	28,537	27,753
- accumulated depreciation	(10,020)	(8,220)
	18,517	19,533
Computer equipment		
- at cost	30,630	28,845
- accumulated depreciation	(23,195)	(19,673)
	7,435	9,172
Office improvements		
- at cost	56,835	56,835
- accumulated depreciation	(9,808)	(7,119)
	47,027	49,716
Library		
- at cost	4,379	4,379
- accumulated depreciation/amortisation	(2,726)	(2,313)
	1,653	2,066
Website Development		
- at cost	2,797	2,797
- accumulated depreciation/amortisation	(2,705)	(2,643)
	92	154
Total plant and equipment	424,316	469,083

Reconciliations

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

	Laboratory machinery and equipment \$	Office furniture and equipment \$	Computer equipment \$	Office improvements \$	Library and website costs \$	Total \$
2020						
Beginning of the year	388,442	19,533	9,172	49,716	2,220	469,083
Additions	3,375	784	1,785	-	-	5,944
Depreciation	(42,225)	(1,800)	(3,522)	(2,689)	(475)	(50,711)
End of the year	349,592	18,517	7,435	47,027	1,745	424,316
2019						
Beginning of the year	350,664	21,300	7,845	52,593	2,838	435,240
Additions	83,816	144	4,845	-	-	88,805
Depreciation	(46,038)	(1,911)	(3,518)	(2,877)	(618)	(54,962)
End of the year	388,442	19,533	9,172	394,716	2,220	469,083

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$	2019 \$
13: Right of Use Assets		
Land and buildings - right-of-use	230,495	-
Less: Accumulated amortisation	(150,107)	-
	80,387	-

Right-of-use assets relate to the adoption of AASB 16: Leases on 1 July 2019. Refer to Note 2(a) for further information. The Company leases land and buildings for its offices under agreements of between one to five years. On renewal, the terms of the leases are renegotiated.

14: Trade and Other Payables**CURRENT***Unsecured liabilities*

Trade payables	159,486	124,413
Employee related payables	101,940	52,600
Sundry creditors	234,073	143,509
	495,499	320,522

	Note	2020 \$	2019 \$
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15: Financial Liabilities**CURRENT**

Loans payable	15(a)	-	150,000
R&D advance	15(a)	-	587,408
		-	737,408

(a) Loans payable

The prior year balance comprises a short-term unsecured loan provided by Dr Graham Melrose at an interest rate of 5% per annum. The amount was repaid in full on 16 October 2019.

The prior year R&D advance represents an amount payable to Radium Capital and was offset against R&D refunds received during the current year.

The total proceeds from borrowings received during the year of \$612,462 as reflected in the statement of cash flows is made up of \$262,462 from Radium Capital and \$350,000 in other loans.

The total borrowings repaid during the year of \$1,349,870 as reflected in the statement of cash flows is made up of \$849,870 to Radium Capital, \$150,000 to Dr Graham Melrose and \$350,000 in other loans.

16: Provisions for Employee Benefits**CURRENT***Unsecured liabilities*

Annual leave	139,804	123,977
Sick leave	137,332	91,433
Long service leave	29,356	-
	306,492	215,410

NON-CURRENT

Long service leave	46,301	54,448
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	2020 \$	2019 \$
17: Lease Liabilities		
CURRENT		
Lease liability	83,235	-

18: Share Capital

	2020		2019	
	No.	\$	No.	\$
Movements in ordinary shares on issue:				
Opening balance	107,129,919	11,573,369	89,342,418	10,031,509
Shares issued during the year:				
- shares issued to consultants/KMP (Note 22)	195,655	55,204	430,358	-
- Acuity Placement Deed ¹	750,000	150,000	4,500,000	-
- new shares issued from placement (net capital raising costs) ²	26,032,477	5,844,656	12,857,143	1,541,860
- new shares issued on options exercised ³	1,963,736	558,653	-	-
	28,941,868	6,608,513	17,787,501	1,541,860
- Transfer from reserves to share capital (Note 19)	-	284,454	-	-
	-	284,454	-	-
Total⁴	136,071,787	18,466,336	107,129,919	11,573,369

1 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.

2 On 10 October 2019, the Company issued 26,032,477 ordinary shares raising \$6,768,444 (before capital raising costs). Total capital raising costs were \$923,788 comprising cash component of \$497,381 and options fee component of \$426,407 (refer Note 22).

3 1,963,736 ordinary shares were issued on exercise of options, 104,167 at 18.72 cents, 109,569 at 17.80 cents, 500,000 at 25.93 cents and 1,250,000 at 31.20 cents.

4 At 30 June 2020, 136,071,787 ordinary shares on issue were quoted on the ASX.

Options from shares issued

The following options remain outstanding at each respective balance date:

Particulars	Issue Date	Exercise Date	Exercise Price cents	2020 No.	2019 No.
Options	16-Jun-17	21-Jun-21	25.93	141,000	641,000
Tranche 1	19-Jul-17	19-Jul-20	21.71	59,880	59,880
Tranche 2	06-Sep-17	25-Aug-20	18.72	-	104,167
Tranche 3	29-Sep-17	29-Sep-20	17.80	-	109,569
Tranche 4	02-Nov-17	01-Nov-20	20.40	127,470	127,470
Tranche 5	01-Dec-17	30-Nov-20	20.96	124,069	124,069
Tranche 6	17-Jan-18	10-Jan-21	19.88	130,804	130,804
Tranche 7	16-Feb-18	13-Feb-21	19.81	65,617	65,617
Options	15-Feb-19	15-Feb-23	16.80	1,800,000	1,800,000
Options ¹	13-Dec-19	19-Feb-23	31.20	1,250,000	-
				3,698,840	3,162,576

1 On 13 December 2019, the Company issued 2,500,000 options to Shaw and Partners Limited relating to the fee payable as corporate advisor to the Company for the placement announced by the Company on 10 October 2019. The unlisted options were issued for \$0.312 per option. The total expense recognised for the options issued was \$426,407 and has been recognised in equity as a share issue cost during the 30 June 2020 financial year. 1,250,000 options were exercised on 27 February 2020.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$	2019 \$
19: Reserves			
Performance shares reserve	19(a)	1,444,481	1,444,481
Share-based payments reserve	19(b)	-	71,250
Options reserve	19(c)	360,022	146,818
		1,804,503	1,662,549

(a) Performance shares reserve

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

Movements of performance shares reserve:

At beginning of year	1,444,481	1,444,481
Conversion to ordinary shares	-	-
At end of year	1,444,481	1,444,481

(b) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of other share-based payments for which ordinary shares are yet to be issued.

Movements of share-based payments reserve:

At beginning of year	71,250	71,250
Transfer from reserve to share capital on issuance of ordinary shares	(71,250)	-
At end of year	-	71,250

(c) Options reserve

The options reserve is used to recognise the fair value of options issued.

Movements of options reserve

At beginning of year	146,818	-
Options issued to lead manager ¹	426,407	146,818
Transfer from reserve to share capital on issuance of ordinary shares	(213,203)	-
At end of year	360,022	146,818

1 Refer to Note 18. Transfers between equity and reserve accounts during the year total \$284,454.

	2020 \$	2019 \$
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20: Cash Flow Information

Reconciliation of loss after income tax to net cash flow from operating activities:

Loss for the year	(4,316,737)	(2,789,197)
Adjustments and non-cash items:		
- Depreciation and amortisation	50,711	56,088
- Share-based payments expense	55,204	-
- Accounting for lease assets and liabilities	150,107	
Change in operating assets and liabilities		
- Increase in trade and other receivables	(4,847)	(15,560)
- Increase in other current assets	(2,648)	(5,379)
- Increase in trade and other payables	177,825	88,618
- Increase in provisions for employee benefits	82,935	53,299
Net cash outflow from operating activities	(3,807,450)	(2,612,131)

Non-cash investing and financing activities:

Non-cash investing and financing activities disclosed in other notes are:

- Capital raising costs of \$426,407 settled via share-based payment (Note 18).

21: Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of markets forecasts for interest rate and foreign exchange prices. Liquidity risk is monitored through the development of future cash flow forecasts.

Risk management is carried out by Management and overseen by the Board of Directors.

The main risks arising for the Group are foreign exchange risk, interest rate risk, credit risk and liquidity risk. The carrying values of the Group's financial instruments are as follows:

	2020 \$	2019 \$
Financial Assets		
<i>At amortised cost</i>		
Cash and cash equivalents	2,682,192	403,384
Trade and other receivables	41,364	36,517
	2,723,556	439,901
Financial Liabilities		
<i>At amortised cost</i>		
Trade payables and sundry creditors	393,559	267,922
Loans payable	-	150,000
R&D Advance	-	587,408
	393,559	1,005,330

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' accounting purposes.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

(a) Market Risk*(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises from future commercial transactions denominated in a currency that is not the Group's functional currency. Over the next 12 months the Group will enter into contracts with various research organisations in the USA and Canada to perform numerous laboratory tests as well as use the services of an expert consultant that will result in approximately US\$1.5 million & CDN\$0.5 million in expenditure.

(ii) Interest Rate Risk

The Group is exposed to interest rate risk due to variable interest being earned on its interest-bearing bank accounts. At the end of the reporting year, the Group had the following interest-bearing financial instruments:

	2020		2019	
	Weighted average	Balance \$	Weighted average	Balance \$
Cash and cash equivalents	1.03%	2,682,152	1.53%	403,286

(b) Credit Risk

Credit risk is the risk of financial loss to the Group if a counter party to a financial instrument fails to meet its contractual obligations. During the year credit risk has principally arisen from the financial assets of the Group, which comprises cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with the maximum exposure equal to the carrying amount of the instruments.

The carrying amount of financial assets included in the Consolidated Statement of Financial Position represents the Group's maximum exposure to credit risk in relation to those assets. The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, credit worthy third parties and such collateral is not requested nor is it the Group's policy to securities its trade and other receivables. Receivable balances are monitored on an ongoing basis with the result that the Group does not have a significant exposure to bad debts.

The Group has no significant concentrations of credit risk within the Group except for the following:

	Rating	2020 \$	2019 \$
Cash held with BankWest Bank	AA-	2,162,547	403,286
Cash held with National Australian Bank	AA-	250,021	-
Cash held with ME Bank	BBB	250,529	-
Cash held with American Express	N/A	19,055	-
		2,682,152	403,286

The Group's primary banker is BankWest. The Board considers the use of this financial institution, which has a rating of AA- from Standards and Poors, to be sufficient in the management of credit risk with regards to these funds.

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions.

The Directors and Management monitor the cash outflow of the Group on an on-going basis against budget and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

The financial liabilities the Group had at reporting date were trade payables, employee related payables, sundry creditors, loan payables, R&D advance and lease liability incurred in the normal course of the business. Trade payables were non-interest bearing and were deducted within the normal 30-60 day term of creditor payments.

The table below reflects the respective undiscounted cash flows for financial liabilities existing at end of reporting year:

Contractual maturities of financial liabilities	<6 months	>6-12 months	>12 months	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
30 June 2020					
Trade payables	159,486	-	-	159,486	159,486
Employee related payables	101,940	-	-	101,940	101,940
Sundry creditors	234,073	-	-	234,073	234,073
Lease liability	83,235	-	-	83,235	83,235
	578,734	-	-	578,734	578,734
30 June 2019					
Trade payables	124,413	-	-	124,413	124,413
Employee related payables	52,600	-	-	52,600	52,600
Sundry creditors	143,509	-	-	143,509	143,509
Loan payable	150,000	-	-	150,000	150,000
R&D Advance	587,408	-	-	587,408	587,408
	1,057,930	-	-	1,057,930	1,057,930

At 30 June 2020, the Group had sufficient cash to meet the financial liabilities as and when they are due and payables.

(d) Fair Value Hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (i) Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets and liabilities;
- (ii) Level 2 – a valuation technique using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices); or
- (iii) Level 3 – a valuation technique using inputs that are not based on observable market data (unobservable inputs).

	2020	2019
	\$	\$

22: Share-Based Payments

Share-based payments expense recognised during the financial year:

Issue of 44,444 shares to Arthur Kollaras ¹	9,999	-
Issue of 43,478 shares to Justin Ward ¹	10,000	-
Issue of 107,733 shares to Spark Plus ²	35,205	-
Total share-based payments recognised through P&L	55,204	-
Issue of 2,500,000 Corporate Advisor Options	426,407	-
Total share-based payments recognised through equity	426,407	-

1 The amount pertained to the entitlement of the Executives of the Company, J Ward and A Kollaras as part of their compensation. 43,478 and 44,444 shares were issued at 23 cent and 22.5 cents respectively. The allocation of shares was by shareholders at the Annual General Meeting held on 29 November 2019.

2 Pertained to consideration for services rendered by Spark Plus. The allocation of 107,733 shares was approved by shareholders at the Annual General Meeting held on 25 November 2019.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

23: Related Party Transactions**Parent entity**

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

Subsidiaries

Interests in subsidiaries are disclosed in Note 25.

	2020 \$	2019 \$
Key management personnel compensation		
Short-term employee benefits	1,002,909	887,764
Post-employment benefits	140,432	130,859
Termination payments	-	-
Share-based payments	19,999	-
	1,163,340	1,018,623

The following transactions occurred with related parties:

Superannuation contributions

Contributions to superannuation funds on behalf of employees	70,808	79,588
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The prior year unsecured loan outstanding of \$150,000 from Dr Graham Melrose was repaid during the financial year in full. Any other loans during the year were repaid by balance date. Interest paid or payable to Dr Melrose for the year ended 30 June 2020 totalled \$5,732.88 (2019: \$8,854.52).

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

24: Parent Entity Information

The following information relates to the parent entity, Recce Pharmaceuticals Ltd, as at 30 June 2020. The information presented hereto has been prepared using accounting policies consistent with those presented in Note 2.

	2020 \$	2019 \$
(a) Summarised statement of financial position		
Current assets	2,739,404	453,101
Non-current assets	504,703	469,083
Total assets	3,244,107	922,184
Current liabilities	885,226	1,273,340
Non-current liabilities	46,301	54,448
Total liabilities	931,527	1,327,788
Share capital	18,466,336	11,573,369
Reserves	1,804,503	1,662,549
Accumulated losses	(17,958,259)	(13,641,522)
Net Assets/(Liabilities)	2,312,580	(405,604)
(b) Summarised consolidated statement of profit or loss and other comprehensive income		
Loss for the year	(4,316,737)	(2,789,197)
Other comprehensive income	-	-
Total comprehensive loss for the year	(4,316,737)	(2,789,197)

The parent entity has no contingent liabilities as at 30 June 2020.

25: Interest in Subsidiaries

		Percentage Owned	
		2020 %	2019 %
Country of Incorporation			
Parent entity			
Recce Pharmaceuticals Ltd	Australia	-	-
Subsidiaries			
Recce (USA) LLP	United States	100	100
Recce (UK) Limited	United Kingdom	100	100

26: Events Subsequent to Reporting Period

Subsequent to year end:

- Dr Graham Melrose resigned as a Director and Chief Research Officer effective 3 July 2020
- Mr Alan W Dunton was appointed as a Non-Executive Director effective 9 July 2020
- The conversion of 7,398,174 Class C Performance Shares and 698,840 Unlisted Options, with varying exercise prices and expiry dates resulted in the issue of 8,090,714 ordinary fully paid shares
- The milestones associated with 7,398,174 of the Company's Class D unquoted Performance Shares was achieved. The Company will seek quotation for 7,398,174 fully paid ordinary shares

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Other than the above, no matters or circumstances have arisen since the end of the financial year, 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 years.

27: 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 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.

DIRECTOR'S DECLARATION

The Directors of the Company declare that:

1. The consolidated financial statements comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and accompanying notes, as set out on pages 38 to 61, are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standards and the *Corporations Regulations 2001*; and other mandatory reporting requirements; and
 - b. give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended on that date of the Group;
2. The Executive Chairman and Chief Financial Officer have each declared that:
 - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. The financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. The financial statements and notes for the financial year give a true and fair view;
3. In the Directors' opinion there are reasonable grounds to believe that the Group 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.



John Prendergast
Non-Executive Chairman

28 August 2020

INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the members of Recce Pharmaceuticals Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Recce Pharmaceuticals Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Material uncertainty related to going concern

We draw attention to Note 3 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.



Key audit matters

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

Accounting of share-based payments

Key audit matter	How the matter was addressed in our audit
During the financial year ended 30 June 2020, the Group issued equity instruments, in the form of shares and options to key management personnel and other consultants as detailed in Note 2(w) and Note 22. The Group performed valuations of the options and recorded the related share-based payment expense or share capital costs in accordance with the relevant accounting standard. Due to the judgemental estimates used in determining the value of the fair value of the share-based payments, we consider the accounting for the share-based payments to be a key audit matter.	Our audit procedures in respect of this area included but were not limited to the following: • Reviewing relevant supporting documentation to obtain an understanding of the contractual nature and terms and conditions of the share-based payment arrangements; • Reviewing market announcements made by the entity and board minutes to ensure all new share-based payments granted during the year have been accounted for; • Holding discussion with management to understand the share-based payment transactions in place; • Reviewing management's determination of the fair value of the share-based payments granted, considering the appropriateness of the valuation models used and assessing the valuation inputs; • Assessing management's determination of achieving non-market vesting conditions of the performance shares issued in prior periods; • Involving our internal valuation specialists to assess the assumptions and inputs used in the valuation; • Assessing the allocation of the share-based payment expense over management's expected vesting period; and • Assessing the adequacy of the disclosure in Note 2(w), Note 19 and Note 22 in the financial report.



Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 24 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Recce Pharmaceuticals Ltd, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Neil Smith', is written over a faint, stylized BDO logo.

Neil Smith

Director

Perth, 28 August 2020

ASX ADDITIONAL INFORMATION

Shareholder Information as at 29 July 2020

Additional information required by the Australian Securities Exchange listing rules and not shown elsewhere in this report is as follows:

(a) Distribution of equity securities (as at 29 July 2020)

The number of shareholders, option holders and performance right holders by size of holding are:

Holding	Number of Shareholders	Number of Shares	% Issued Share Capital
1 – 1,000	578	358,638	0.25
1,001 – 5,000	894	2,523,160	1.75
5,001 – 10,000	414	3,492,290	2.42
10,001 – 100,000	882	30,462,915	21.13
100,001 and over	182	107,331,798	74.45
Total	2,950	144,168,801	100.00

Holding	Option Holders	Number of Options	% Issued Share Capital
1 – 1,000	–	–	–
1,001 – 5,000	–	–	–
5,001 – 10,000	2	14,200	0.47
10,001 – 100,000	10	463,400	15.45
100,001 and over	5	2,522,400	84.08
Total	17	3,000,000	100.00

Holding	Performance Right Holders	Number of Shares	% Issued Share Capital
1 – 1,000	–	–	–
1,001 – 5,000	–	–	–
5,001 – 10,000	–	–	–
10,001 – 100,000	–	–	–
100,001 and over	10	18,865,095	100.00
Total	10	18,865,095	100.00

ASX ADDITIONAL INFORMATION CONTINUED

(b) Twenty largest shareholders (as at 29 July 2020)

The names of the twenty largest holders of quoted shares are:

Name	Number of Shares	%
1 Mr Graham Melrose & Ms Olga Melrose	36,450,003	25.28
2 Mr Ross Gustafson	6,988,402	4.85
3 Mr James Graham	5,238,120	3.63
4 Acuity Capital Investment Management Pty Ltd <Acuity Capital Holdings A/C>	4,500,000	3.12
5 J P Morgan Nominees Australia Pty Limited	4,347,169	3.02
6 Ms Michele Keryn Dilizia	3,141,273	2.18
7 Querion Pty Ltd	2,100,000	1.46
8 Acewood Investments Pty Ltd <Chivers Super Fund A/C>	1,646,154	1.14
9 Citicorp Nominees Pty Limited	1,158,556	0.80
10 Golden Rivers Mining Pty Ltd	1,154,006	0.80
11 Pejay Pty Limited	1,100,000	0.76
12 Mr Nikolai Shirobokov & Mrs Svetlana Shirobokov	1,060,414	0.74
13 Shortis Natural Therapies Pty Limited <Shortis Family A/C>	1,000,000	0.69
13 Mr Robert Cerny & Mrs Zaphiero John Cerny <Parez Super Fund A/C>	1,000,000	0.69
14 Mr Leslie John Field & Mrs Eve Field	938,504	0.65
15 McCray Investments Pty Ltd <McCray Fam SF A/C>	865,281	0.60
16 Mr Mark David Swinn	833,105	0.58
17 Mr Christopher James Frisch & Mr Paul Edward Frisch <Fredflint Superfund A/C>	759,433	0.53
18 Mr Denis Pierre Geoffrey Pyman <Pyman Super Fund A/C>	700,000	0.49
19 Super And Investment Holdings Pty Ltd <Nettleton Family S/F A/C>	650,000	0.45
20 Haultain Properties Ltd	550,000	0.38
20 Arthur Deryck Bray Graham & Nanette Graham	550,000	0.38
Total	76,730,420	53.22
Balance of Register	144,168,801	100.00

(c) Substantial shareholders

Substantial holders in the Company are set out below (based on voting interest in fully paid ordinary shares) as at 29 July 2020.

Name	Number of Shares	%
Mr Graham Melrose & Ms Olga Melrose	36,450,003	25.28

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction. There are no voting rights attached to any Options or Performance Shares on issue.

(e) Share buyback

There is no current on-market share buy-back.

(f) Unmarketable parcels

There were 90 Shareholders holding less than a marketable parcel, totalling 18,011 shares.

CORPORATE DIRECTORY

FOR THE YEAR ENDED 30 JUNE 2020

Directors

Dr John Prendergast

Non-Executive Chairman (appointed 9 July 2019)

Dr Graham Melrose

Executive Director (resigned 3 July 2020)

Ms Michele Dilizia

Executive Director

Mr James Graham

Executive Director

Dr Justin Ward

Executive Director (appointed 9 July 2019)

Dr Alan Dunton

Non-Executive Director (appointed 14 July 2020)

Company Secretary

Alistair McKeough

Chief Financial Officer

Justin Reynolds

Registered Office

Suite 10, 3 Brodie Hall Drive

Bentley WA 6102

Phone: +61 8 9362 9860

Share Register

Automic Pty Limited

Level 5, 126 Phillip Street

Sydney NSW 2000

Phone: 1300 288 664

Auditors

BDO Audit (WA) Pty Ltd

38 Station Street

Subiaco WA 6008

Internet Address

www.recce.com.au

ASX Code

RCE

Annual General Meeting

The Annual General Meeting will be held on the 19 November 2020.

Automic Pty Limited

Level 5/126 Phillip Street

Sydney NSW 2000

