Recce
Pharmaceuticals

ANNUAL REPORT 2018

FY18 HIGHLIGHTS

Capital

- Secured 43.5% research and development rebate for product development from the Australian Government.
- Extended research and development rebate to include Company's antibiotic development activities undertaken anywhere in the world.*
- Share Purchase Plan raised double the targeted amount.

Regulatory

- Invited to meet with a 13-member panel of the FDA's Division of Anti-Infective Products.
- Additional data submitted to US Food & Drug Administration under guidance.
- Awarded *Qualified Infectious Disease Product* (QIDP) designation under the *Generating Antibiotic Incentives Now* (GAIN) Act labelling RECCE® 327 with 10 years of market exclusivity once approved and fast track regulatory status.

Management

- Appointed Justin Reynolds as independent Chief Financial Officer, Alistair McKeough as independent Company Secretary and Dr John Prendergast US-based Non-Executive Director.

Manufacturing

- Confirmed intravenous drip dosing for RECCE® 327 and production volumes at amounts suitable for Phase I and Phase II human clinical trials.

WHO WE ARE

An emerging global leader in new generation antibiotic therapies.

Recce Pharmaceuticals Ltd is an Australian based globally-focused, biotech company engaged in the development and commercialisation of a new class of antibiotics with broad spectrum activity designed to address the urgent global health issue 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.

Following recent pre-clinical data submissions to the US Food and Drug Administration (FDA), RECCE® 327 was awarded *Qualified Infectious Disease Product* (QIDP) designation under the *Generating Antibiotic Incentives Now* (GAIN) Act, labelling RECCE® 327 with 10 years of market exclusivity once approved and fast track regulatory status.

During the reporting period, Recce management was invited to meet with a 13-member panel of the FDA's Division of Anti-Infective Products, where it received formal guidance on its clinical and regulatory pathways in the US for its lead antibiotic compound, which the company is now actively pursuing.

The Company's wholly owned and patented method of manufacture was established with capacity at amounts suitable for Phase I and II clinical trials.

Recce has a manufacturing facility in Sydney, research and development in Perth and is expanding its operations in the United States.

recce.com.au

*On the 15th January 2018, the Company was awarded an Advanced Finding from AusIndustry. This secures a 43.5% rebate against a forecast of AU $5.6 million of overseas drug development expenditure for FY17/18/19.

> "We remain focused on allocating our valuable resources towards achieving the key milestones that will deliver maximum shareholder value."

Executive Chairman and Chief Research Officer, Dr Graham Melrose

During the reporting period, Recce continued to make substantial advances towards its goal of commercialising its unique synthetic broad spectrum antibiotic, aimed at addressing the urgent global health issue of antibiotic resistant superbugs.

At the end of the financial year RECCE® 327, our lead compound for the treatment of sepsis remained on track to achieving a major regulatory milestone with US FDA.

The team has been working hard to collate and prepare the additional data required by the FDA following a productive face-to-face guidance meeting in May 2018.

Operations

As we continue in our international advances, we have remained concurrently active in preparing the business to support a clinical trial in the US and to initiate the clinical development of other potential therapies in our product pipeline.

Additionally, we will seek to actively take advantage of potential benefits that may be available under the numerous legislative and regulatory incentives that may afford avenues to expedite the development of our technology faster and at less expense than the traditional path to market.

These incentives, which include QIDP designation under the *US Generating Antibiotic Incentives Now (GAIN) Act*, have been put in place by farsighted regulators to expedite the development of new treatments that help address the very real threat to human health from antibiotic resistant bacteria.

We remain focused on allocating our valuable resources towards achieving the key milestones that will deliver maximum shareholder value, while at the same time prudently managing our spend.

Our main focus continues to be investing in building the foundations for long-term growth. This includes manufacturing capacity and management capability.

Growing leadership

Our leadership in the development of innovative antibiotics is underpinned by our team's commitment and expertise, our growing intellectual property portfolio across all major markets and our scalable manufacturing capabilities. The varied and considerable experience of the Board is another significant asset for the Company.

This year saw the appointment of a new Non-Executive board member, Dr John Prendergast, who brings significant international experience in commercialising pharmaceuticals in global markets, most notably in the USA. His insights and guidance will be invaluable as we advance towards first-in-human clinical trials.

Our new Company Secretary and Chief Financial Officer support our day-to-day operations. Both work with us under contract from established groups allowing us to control our expenses while being able to benefit from the best advice available.

Outlook

We will continually seek to complement the existing skill sets with additional international pharmaceutical and commercial expertise.

I would like to thank Executive Director Michele Dilizia at our R&D Centre in Perth and Executive Director James Graham in our Sydney head office, along with the very talented and dedicated team at our manufacturing facility in Sydney and Perth, as well as the hardworking employees and contractors who have collectively contributed to our progress this year.

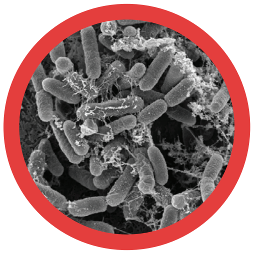
The dedication and commitment of all who work with Recce are the key to our success. Together we are seeking to transform the antibiotics market and meet the urgent need for new therapies.

The continued good results we achieve together will underpin the creation of significant value for shareholders over many decades. We remain grateful for the ongoing support and loyalty from our shareholders and look forward to updating you on further substantial progress expected in the coming year.

Dr Graham Melrose
Executive Chairman

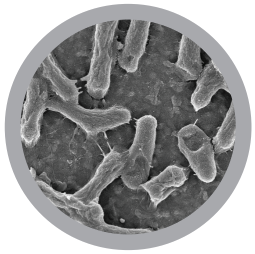
Our lead compound RECCE® 327 in action

These images show the mechanism of action of our lead compound RECCE® 327.



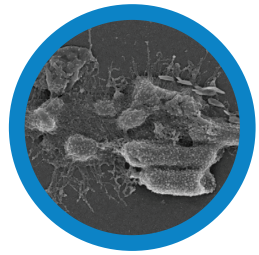
0 mins

E. coli cells are healthy, smooth and intact



20 mins

Significant cell-membrane weakening and disruption



3 hours

Cell lysis and bacteria are destroyed

This is a high-definition electron microscope image generated in 2017 by Dr Peta Clode and Lyn Kirilak of the Centre for Microscopy, Characterisation and Analysis, University of Western Australia. It was taken to demonstrate RECCE® 327's unique mechanism of action.

Pre-clinical studies to date have confirmed and demonstrated safety and efficacy of RECCE® 327 in destroying a number of prevalent antibiotic resistant bacteria.

Efficacy

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

Safety

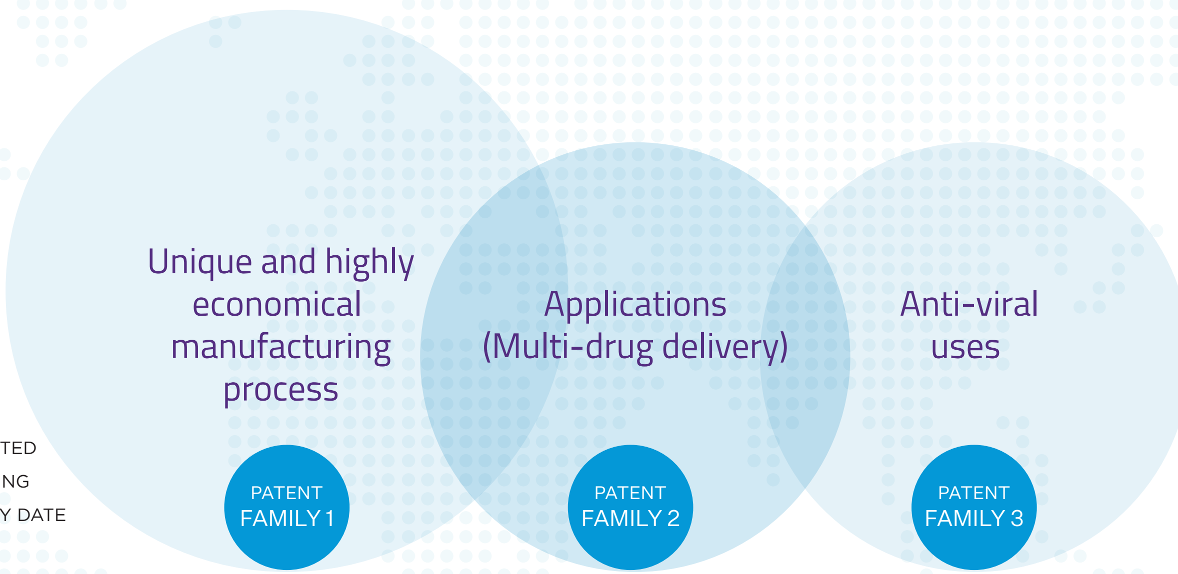
- Multiple studies of toxicity in small and large animals
- Multiple tests of mutagenicity (cancer) are clear
- Numerous studies to date indicate the safety of RECCE® 327
- Is suited to administration against sepsis by intra-venous drip
- Indicates a safe therapeutic dosing window

Patent portfolio

We believe our intellectual property position provides us with substantial competitive advantages for the commercial development of our antibiotic compounds. It is one of the foundations of our business.

Recce Pharmaceuticals Ltd currently has three wholly owned patent families including 21 patents or patent applications. We are constantly expanding, broadening and developing our intellectual property portfolio. Recce Pharmaceuticals Ltd is also committed to protecting its intellectual property estate of patent rights and trade mark secrets and the potential commercial and clinical advantages this protection provides for its proprietary technology.

The patent portfolio includes issued patents and patent applications in the world's leading antibiotic markets on a dollar basis, including the United States, Europe, China and Japan.



● GRANTED
○ PENDING
► EXPIRY DATE

COUNTRIES FILED	PATENT FAMILY 1	PATENT FAMILY 2	PATENT FAMILY 3
Australia	● ►2028	● ►2035	○ ►2035
USA	● ►2029	○ ►2035	○ ►2035
Europe	● ►2028	○ ►2035	○ ►2035
Germany	● ►2028	○ ►2035	○ ►2035
Spain	● ►2028	○ ►2035	○ ►2035
France	● ►2029	○ ►2035	○ ►2035
United Kingdom	● ►2028	○ ►2035	○ ►2035
Italy	● ►2028	○ ►2035	○ ►2035
Sweden	● ►2028	○ ►2035	○ ►2035
Japan	● ►2028	○ ►2035	○ ►2035
China	● ►2028	○ ►2035	○ ►2035

Legislative Support

The US Right-to-Try Act was passed in the US during May/June of 2018, designed to give all patients with life threatening diseases immediate and direct access to potentially lifesaving drugs after they have completed Phase I clinical trials, and years ahead of formal marketing approval. The new legislation mitigates the possibility of up to weeks of procedural delay in what was previously termed 'Compassionate Use' cases, potentially resulting in improved patient outcomes, with reduced risk to those providing them. Whilst this legislation does not affect the Company's business at present, it is nevertheless further evidence of the evolving favourable regulatory environment in the US – the largest antibiotic market in the world, aimed at expediting new drugs with lifesaving potential.

Our first target is Sepsis

Sepsis is a life threatening inflammatory response to an infection that has spread in the body. It currently claims more lives in the US than prostate, breast and lung cancer combined[1,2]. Each year that passes, there are more than 1.6 million cases of sepsis and 258,000 deaths that occur in the US[3]. Sepsis is the leading cause of death in intensive care units and is one of the top 10 causes of mortality worldwide. The incidence of severe sepsis is increasing rapidly, making it to be the most expensive condition to treat – double the average cost per stay across all other conditions[3].

Dr Graham Melrose and Michele Dilizia in the lab inspecting a fresh bottle of RECCE® 327.

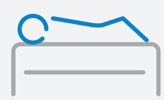
Market need for sepsis treatments

1 person

dies from sepsis every 2 minutes[3]

$24bn

in annual costs treated in US hospitals[3]

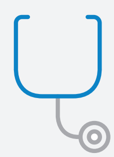


2%

of hospitalisations are for sepsis but they make up

17%

of in hospital deaths[4]



Most

expensive condition to treat – double the average cost per stay across all other conditions[3]

1 www.cdc.gov/sepsis/datareports/index.html
2 onlinelibrary.wiley.com/doi/pdf/10.3322/caac.21387
3 www.sepsis.org/downloads/2016_sepsis_facts_media.pdf
4 www.cdc.gov/nchs/products/databriefs/db62.htm

"3 in 4 of the antibiotics under development belong to existing classes of antibiotics, against which bacterial resistance has already been observed or could easily develop."[1]

"Only one of the novel antibiotics in development has the potential to treat Gram-negative bacteria, which cause some of the hardest-to-treat infections."[1]

Pew's Charitable Trusts Analysis, 2018.[1]

1 www.forbes.com/sites/brucelee/2018/09/22/fda-here-is-the-2019-strategic-approach-to-combat-antimicrobial-resistance/#6a5f836532102

BOARD OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Dr Graham Melrose

Executive Chairman 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.

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.

Dr John Prendergast

Non-Executive Director

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.

Arthur Kollaras

Principal Engineer

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.

Dr Justin Ward

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.

Alistair McKeough

Company Secretary (Whittens & McKeough)

Alistair is a qualified lawyer and Principal/Managing Director of Whittens & McKeough. 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 2018

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Your Directors present their report on Recce Pharmaceuticals Ltd (formerly Recce Ltd) (the 'Company') and controlled entities (the 'Group') for the year ended 30 June 2018.

Directors

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

Dr Graham Melrose
Ms Michele Dilizia
Mr James Graham
Dr John Prendergast (Appointed on 24 April 2018)

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 Graham Melrose
Chairman (Executive)

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

30,375,003 Ordinary Shares*
6,075,000 Class B Performance Shares*
6,075,000 Class C Performance Shares*
6,075,000 Class D Performance Shares*

**held jointly with wife Olga Mary Melrose*

Special Responsibilities

Chairman of the Board of Directors

Directorships held in other listed entities during the last three years

Nil

Ms Michele Dilizia

Director (Executive)

Qualifications

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

2,886,061 Ordinary Shares
577,212 Class B Performance Shares
577,212 Class C Performance Shares
577,212 Class D Performance Shares

Special Responsibilities

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

Directorships held in other listed entities during the last three years

Nil

Mr James Graham

Director (Executive)

Qualifications

BCom (Entrepreneurship), GAICD

Experience

Mr Graham previously held a General Manager position of a start-up marine company with sales in Australia, Asia and Europe. He was an investor (non-professional) in ASX-listed technology companies.

Mr Graham was closely involved in the early growth and direction of Recce Pharmaceuticals Ltd including initiating and facilitating funding.

Interest in Shares

Direct ownership

1,868,601 Ordinary Shares
356,250 Class B Performance Shares
356,250 Class C Performance Shares
356,250 Class D Performance Shares

Indirect ownership

1,781,250 Ordinary Shares
356,250 Class B Performance Shares
356,250 Class C Performance Shares
356,250 Class D Performance Shares

Special Responsibilities

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

Directorships held in other listed entities during the last three years

Nil

Dr John Prendergast
Director (Non-Executive)

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; Lead Director of Heat Biologics, Inc. (NASDAQ: HTBX) and Co-founder/Executive Chairman of Nejo, Inc.

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 ithree Institute.

Interest in Shares

250,000 Ordinary Shares*

**pending AGM approval*

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)

Chief Financial Officer

Peter Williams
(Resigned on 29 November 2017)

Justin Reynolds
(Appointed on 29 November 2017)

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 businesses to multinational companies and high net worth individuals.

Company Secretary

Peter Williams
(Resigned on 29 November 2017)

Alistair McKeough
(Appointed on 29 November 2017)

Peter Williams was the Chief Financial Officer and Company Secretary of the Group until 29 November 2017.

Mr Williams has significant commercial experience both domestically and internationally. He has been Chief Financial Officer and Company Secretary in a range of ASX listed companies having research and manufacturing programs.

Alistair McKeough is a Partner from Whittens & McKeough Sydney.

Mr McKeough is an experienced commercial litigator with an outstanding record of success in contested litigation.

Mr McKeough is trusted by some of Australia's most pre-eminent business people to handle their personal legal affairs. Mr McKeough's academic work has been quoted by the Court of Appeal of New South Wales and in leading Australian text books. He has served as Company Secretary to several ASX Listed companies 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.

Review of Operations

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

On 20 July 2017, the Company announced that its manufacturing facility in Sydney was producing at volumes for Phase I and Phase II purposes in preparation for human clinical trials.

On 31 July 2017, the Company announced the following:

- it had positive data from additional pre-clinical studies which confirmed that RECCE® 327 was equally effective in killing Gram Positive and Gram Negative bacteria and their superbug forms;
- that the preferred mode of delivery of RECCE® 327 was via an IV drip; and
- that independent experts had reviewed the Group's draft Investigational New Drug ('IND') and recommended that the Company should proceed to a pre-IND meeting with the US Food and Drug Administration ('FDA').

On 7 September 2017, the Company confirmed it had submitted pre-clinical data and related documentation to the FDA as part of the process for its application to enter human clinical trials for its lead candidate antibiotic RECCE® 327.

On 27 September 2017, the Company launched a Share Purchase Plan which was offered to eligible shareholders for an opportunity to purchase up to $15,000 worth of new ordinary shares in the Company without brokerage or transaction costs. The Plan was limited to a maximum of 5,700,000 new shares.

On 23 October 2017, the Company accepted applications from 171 registered shareholders totalling $946,500, equivalent to 5,408,487 new shares under the Share Purchase Plan.

On 16 November 2017, the Company announced that the US FDA had granted Qualified Infectious Disease Product ('QIDP') designation for its lead compound RECCE® 327. This designation is an important achievement in the regulatory path for RECCE® 327 with the FDA and has significant benefits to the Group's business.

On 21 November 2017, at the Annual General Meeting, the shareholders of the Company approved the change of name from Recce Ltd to Recce Pharmaceuticals Ltd.

On 29 November 2017, the Company announced that Mr Peter Williams was no longer the Company Secretary and CFO. Alistair McKeough from Whittens & McKeough Sydney has been appointed as the new independent Company Secretary whilst Mr Justin Reynolds from Pitcher Partners Sydney became the new independent consultant CFO.

On 15 January 2018, following the release of 42,810,081 unquoted ordinary shares from escrow, the Company sought for these shares to be quoted on the ASX. 34,928,832 of these shares were held by Executive Directors.

On 15 January 2018, the Company's 8,754,423 Class B, 8,754,423 Class C and 8,754,423 Class D performance shares were released from escrow. The Company will not seek quotation of these shares unless certain performance hurdles are achieved.

On 15 January 2018, the Company was awarded an Advanced Finding from the Australian Government's Department of Industry, Innovation and Science (AusIndustry). This secured a 43.5% rebate against a forecast of AU$5.6 million of overseas drug development expenditure for the financial years 30 June 2017, 30 June 2018 and 30 June 2019. This unique award extends the Australian Government's support, traditionally only applicable to locally conducted Research and Development expenditure, and now further includes the Company's antibiotic development activities undertaken anywhere in the world.

On 17 January 2018 and 16 February 2018, the Company issued 654,022 ordinary shares with 130,804 options and 328,084 ordinary shares with 65,617 options to The Australian Special Opportunity Fund LP ('ASOF'), a New York institutional investor managed by The Lind Partners, as part of its Share Purchase and Convertible Security Agreement signed by the Company and ASOF on 16 June 2017. The options will expire on 10 January 2021 and 13 February 2021, respectively.

On 15 February 2018, the Company announced the submission of additional data to the US FDA, including expanded pre-clinical data and a proposed Phase I clinical trial program for the Company's lead compound RECCE® 327. The submission included a communication request, leveraging unique opportunities gained under RECCE® 327's Qualified Infectious Disease Product (QIDP) designation.

On 16 February 2018, the Company held a general meeting in relation to the re-election of Ms Michele Dilizia and Mr James Graham as Directors of the Company. This was for the purposes of Section 250V(1) of the *Corporations Act 2001*. Both Directors ceased to hold office as Directors of the Company immediately before the end of the meeting, and being eligible, were unanimously re-elected as Directors of the Company. This occurred because the resolution to adopt the Company's Remuneration Report at two consecutive Annual General Meetings (being 2016 and 2017) had 25% or more of the votes cast against the resolution; the Spill Resolution was put to Shareholders at the Company's 2017 Annual General Meeting and was passed. Accordingly, and as required by Section 250V of the *Corporations Act 2001*, this meeting of Shareholders, known as a 'Spill Meeting', was held within 90 days after the 2017 Annual General Meeting dated on 21 November 2017.

On 8 March 2018, the Company announced it had been officially invited to attend a face-to-face meeting with the US FDA to discuss its unique technology and proposed clinical and regulatory pathway for its lead synthetic antibiotic compound RECCE® 327.

On 28 March 2018, the Company announced that in view of the Company's current liquidity and imminent receipt of a further AU$853,000 from the Federal Government under its R&D rebate scheme, the Board believed the Company had sufficient funds to meet its near-term objectives as it continued to maintain a prudent and cautious approach to managing its finances.

On 23 April 2018, the Company confirmed that it had received an additional $861,590 from the Australian Government for its overseas Advanced Drug Development Expenditure in FY2017 under the Australian Government's Research and Development (R&D) Tax Incentive which brought the total amount received in FY18 to $1,288,518.

On 24 April 2018, the Company announced the appointment of Dr John Prendergast to its Board as an Independent Non-Executive Director.

On 16 May 2018, the Company presented to a 13-member panel of the US FDA Division of Anti-Infective Products for its lead synthetic antibiotic compound RECCE® 327.

On 5 June 2018, the Company received clear formal guidance around the design of a planned Phase I trial following its meeting in May with the US FDA's Division of Anti-Infective Products, Office of Antimicrobial Products.

ASOF invested an additional $400,000 in four tranches and converted $300,000 of the convertible notes to equity in accordance with Share Purchase and Convertible Security Agreement signed on 16 June 2017.

Results of Operations

The operating loss has reduced to $1,674,288 (2017: loss of $3,025,504). The major item that impacted on the reduction of the loss was the receipt of a $1,288,518 R&D tax incentive during the year.

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

Other expenses increased by $398,101 which were primarily attributable to the increase in consultancy fees for legal, taxation and regulatory requirements. Finance costs increased by $51,900 due to the fair value movement of the convertible notes and the impact of the early conversion of the convertible notes to equity.

The loss per share decreased during the year to 1.98 cents (2017: 3.95 cents).

The Group's current 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 721,576 (2017: 641,000) options to acquire ordinary shares in the Company at various exercise prices and dates as disclosed in Note 16 to the consolidated financial statements. There were no options exercised during the year (2017: nil).

Significant Changes in State of Affairs

There were no significant changes in the Group's state of affairs that 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

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.

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 2018:

(i) Executive Directors

Dr Graham Melrose	Executive Chairman
Ms Michele Dilizia	Executive Director
Mr James Graham	Executive Director
Dr John Prendergast	Non-Executive Director *(appointed on 24 April 2018)*

(ii) Key Management Personnel

Mr Peter Williams	CFO and Company Secretary *(resigned on 29 November 2017)*
Mr Justin Ward	Principal Quality Chemist
Mr Arthur Kollaras	Principal Engineer

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 executives' 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 the Group operates;
- 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 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 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 believe 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.

(B) Executive Service Agreements

Name	Base Salary up to December 2017 (pa)	Base Salary up to December 2018 (pa)	Performance-Based Incentives	Term	Notice Period
Dr Graham Melrose	$220,000	$220,000	Nil	5 years effective from 1 July 2015	3 months
Ms Michele Dilizia	$101,000	$128,000	Nil	2 years effective from 1 July 2016	3 months
Mr James Graham	$138,000	$146,500	Nil	2 years effective from 1 February 2017	3 months
Mr Peter Williams*	$165,000	n/a	Nil	5 years effective from 19 May 2015	3 months
Mr Justin Ward	$100,460	$130,460	Nil	No fixed term	4 weeks
Mr Arthur Kollaras	$159,820	$170,000	Nil	No fixed term	4 weeks

*Peter Williams resigned as CFO and CO-SEC on 29 November 2017.

The appointment of Dr John Prendergast as Non-Executive Director was subject to the terms and conditions set out in his letter of appointment. Under the terms contained in the letter of appointment with the Company, Dr Prendergast receives AUD$50,000 per annum (plus applicable superannuation). Dr Prendergast will also receive an allocation of 250,000 fully paid ordinary shares, which will be subject to shareholder approval at the next Annual General Meeting. The shares will be allocated to Dr Prendergast within one month of the Annual General Meeting.

(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 2018

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	17,516	20,900	–	–	–	258,416	–
M Dilizia	114,500	6,858	10,877	–	–	–	132,235	–
J Graham	142,250	3,831	13,514	–	–	–	159,595	–
J Prendergast[1]	12,500	–	–	–	–	46,250	58,750	–
Executives								
P Williams[2]	67,058	–	6,371	21,263	–	–	94,692	–
J Ward	115,460	720	10,969	–	–	10,000	137,149	–
A Kollaras	164,910	1,119	15,666	–	–	15,000	196,695	–
	836,678	30,044	78,297	21,263	–	71,250	1,037,532	

1 J Prendergast was appointed to the Board on 24 April 2018.
2 P Williams resigned as CFO and Co-Sec on 29 November 2017.

Year ended 30 June 2017

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	–	20,900	–	–	–	240,900	–
M Dilizia	101,000	–	9,595	–	–	–	110,595	–
J Graham	145,431	–	13,816	–	–	–	159,247	–
D Barnes[3]	30,870	–	2,932	–	–	–	33,802	–
B Murdoch[4]	22,108	–	2,100	–	–	–	24,208	–
Executives								
P Williams	176,250	–	16,743	–	–	–	192,993	–
J Ward[5]	72,644	–	6,901	–	–	10,000	89,545	–
A Kollaras[6]	112,561	–	10,693	–	–	10,000	133,254	–
	880,864	–	83,680	–	–	20,000	984,544	

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

(D) Share-based Remuneration

Year Ended 30 June 2018

(i) Issue of ordinary shares

There were no shares issued to Directors or KMP as part of their compensation during the year ended 30 June 2018. However, entitlements were given to the following KMPs during the year but shares were not yet issued as at 30 June 2018 and at the date of this report.

Employee Name	Shares to be issued	
	No.	$
Director – Non-Executive		
J Prendergast[1]	250,000	46,250
Executives		
J Ward[2]	57,143	10,000
A Kollaras[2]	85,714	15,000
	392,857	71,250

1 Pertained to a sign-on bonus of J Prendergast after joining as a Non-Executive Director of the Company. The allocation of shares will be subject to shareholder approval at the next Annual General Meeting.

2 The share entitlement was given as part of their compensation.

(ii) Issue of options

There were no options issued to Directors or KMP as part of their compensation during the year ended 30 June 2018.

(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 2018.

Year Ended 30 June 2017

(i) Issue of ordinary shares

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

Employee Name	Shares issued	
	No.	$
Executives		
J Ward	52,631	10,000
A Kollaras	51,282	10,000
	103,913	20,000

(ii) Issue of options

There were no options issued to Directors or KMP as part of their compensation during the year ended 30 June 2017.

(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 2017.

Terms and Conditions of Performance Shares

The terms and conditions of the Performance Shares are intended to be as follows:

Rights attaching to the Performance Shares

(a) (**Performance Shares**) Each Performance Share is a share in the capital of the Company.

(b) (**General Meetings**) Each Performance Share confers on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to holders of fully paid ordinary shares in the capital of the Company (**Shareholders**). Holders have the right to attend general meetings of Shareholders.

(c) (**No Voting Rights**) A Performance Share does not entitle the Holder to vote on any resolutions proposed by the Company except as otherwise required by law.

(d) (**No Dividend Rights**) A Performance Share does not entitle the Holder to any dividends.

(e) (**No rights on return of capital**) A Performance Share does not entitle the Holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.

(f) (**Rights on Winding Up**) A Performance Share does not entitle the Holder to participate in the surplus profits or assets of the Company upon winding up.

(g) (**Not Transferable**) A Performance Share is not transferable.

(h) (**Reorganisation of Capital**) If at any time the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.

(i) (**Application to ASX**) The Performance Shares will not be quoted on ASX. However, if the Company is listed on ASX at the time of conversion of the Performance Shares into fully paid ordinary shares (Shares), the Company must within 10 Business Days apply for the official quotation of the Shares arising from the conversion on ASX.

(j) (**Participation in entitlements and bonus issues**) A Performance Share does not entitle a Holder (in their capacity as a holder of a Performance Share) to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.

(k) (No Other Rights) A Performance Share gives the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

(l) (Conversion on Achievement of Milestone) Subject to paragraph (m), a Performance Share in the relevant class will convert into one Share upon achievement of:

(i) Class A: the volume weighted average price of Shares as traded on ASX over 20 consecutive trading days on which the Shares are traded is not less than $0.30 on or before 19 August 2020 (Milestone).

(ii) Class B: the Company is awarded the US Food and Drug Administration's (FDA) Investigational New Drug (IND) status (or European equivalent – European Medicines Agency (EMEA)) on or before 19 August 2020 (Milestone).

(iii) Class C: the volume weighted average price of Shares as traded on ASX over 20 consecutive trading days on which the Shares are traded is not less than $0.60 on or before 20 August 2020 (Milestone).

(iv) Class D: the volume weighted average price of Shares as traded on ASX over 20 consecutive trading days on which the Shares are traded is not less than $1.20 on or before 20 August 2020 (Milestone).

(m) (Deferral of Conversion if Resulting in a Prohibited Acquisition of Shares) If the conversion of a Performance Share would result in any person being in contravention of section 606(1) of the *Corporations Act 2001* (Cth) (General Prohibition) then the conversion of that Performance Share shall be deferred until such later time or times that the conversion would not result in a contravention of the General Prohibition. In assessing whether a conversion of a Performance Share would result in a contravention of the General Prohibition:

(i) Holders may give written notification to the Company if they consider that the conversion of a Performance Share may result in the contravention of the General Prohibition. The absence of such written notification from the Holder will entitle the Company to assume the conversion of a Performance Share will not result in any person being in contravention of the General Prohibition.

(ii) The Company may (but is not obliged to) by written notice to a Holder request a Holder to provide the written notice referred to in paragraph (m) (i) within seven days if the Company considers that the conversion of a Performance Share may result in a contravention of the General Prohibition. The absence of such written notification from the Holder will entitle the Company to assume the conversion of a Performance Share will not result in any person being in contravention of the General Prohibition.

(n) (Redemption if Milestone not Achieved) If the relevant Milestone is not achieved by the required date, then each Performance Share in that class will be automatically redeemed by the Company for the sum of $0.00001 within 10 Business days of non-satisfaction of the Milestone.

(o) (Conversion Procedure) The Company will issue the Holder with a new holding statement for any Share issued upon conversion of a class of Performance Shares within 10 Business Days following the conversion.

(p) (Ranking upon Conversion) The Share into which the Performance Share may convert will rank pari passu in all respects with existing Shares.

Details of Performance Shares issued

There were no new performance shares issued for the years ended 30 June 2018 and 2017.

A summary of performance shares issued are as follows:

	Performance Shares			
Name	Class A	Class B	Class C	Class D
Directors				
G Melrose	6,075,000	6,075,000	6,075,000	6,075,000
M Dilizia	577,212	577,212	577,212	577,212
J Graham	745,962	745,962	745,962	745,962
	7,566,924	7,566,924	7,566,924	7,566,924
Value per performance share	$0.173	$0.20[1]	$0.111	$0.054

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.

There were also an additional 4,749,996 performance shares issued to employees apportioned across the performance share classes. The following assumptions were used:

	Class A	Class B	Class C	Class D
Underlying share price	$0.20	$0.20	$0.20	$0.20
20-day VWAP barrier	$0.30	N/A	$0.60	$1.20
Term	5 Years	5 Years	5 Years	5 Years
Risk-free rate	2.18%	2.18%	2.18%	2.18%
Number of Initial Performance Shares Issued	8,754,423	8,754,423	8,754,423	8,754,423
Probability of reaching milestone	N/A	0%	N/A	N/A

The Trinomial option pricing model has been used to calculate the value of Class A, Class C and Class D performance shares.

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 2018 held by the Directors of the Company and other KMP of the Group, including their personally related parties, are set out below. There were no shares granted during the financial year as compensation.

Name	Balance at 1 July 2017	Net Change Other	Conversion of Performance Shares	Share-based Payment	Balance at Date of Resignation	Balance at 30 June 2018
Directors						
G Melrose[1]	30,375,003	–	–	–	–	30,375,003
M Dilizia	2,886,061	–	–	–	–	2,886,061
J Graham	3,649,851	–	–	–	–	3,649,851
J Prendergast	–	–	–	–	–	–
Executives						
P Williams	281,250	–	–	–	281,250	–
J Ward	52,631	–	–	–	–	52,631
A Kollaras	51,282	–	–	–	–	51,282
	37,296,078	–	–	–	281,250	37,014,828

1 Although G Melrose was entitled to convert 6,075,000 Class A Performance Shares on 16 February 2016 he was restricted to convert only 1,473,000 Performance Shares as a result of the application of section 606 (1) of the *Corporations Act 2001*.

(b) Performance Shares

The movement of the numbers of performance shares in the Company for the year ended 30 June 2018 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 2017	Granted	Converted to Shares	Lapsed Unexercised	Balance at Date of Resignation	Balance at 30 June 2018
Directors						
G Melrose[1]	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						
P Williams[2]	168,750	–	–	–	168,750	–
J Ward	–	–	–	–	–	–
A Kollaras	–	–	–	–	–	–
	22,363,272	–	–	–	168,750	22,194,522

1 Although G Melrose was entitled to convert 6,075,000 Class A Performance Shares on 16 February 2016 he was restricted to convert only 1,473,000 Performance Shares as a result of the application of section 606 (1) of the *Corporations Act 2001*.

2 Mr Williams performance shares were cancelled following his resignation on 29 November 2017.

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.

Year ended 30 June 2018

Class A Performance Shares

All Class A Performance shares vested and converted to ordinary shares in the financial year ended 30 June 2017 and 30 June 2016.

Performance Shares Outstanding at 30 June 2018

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
		7,454,424		–	–	–		1,479,634

1 These performance shares may vest in any year up until 19 August 2020.

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	674,325
M Dilizia	2015	577,212	$0.111	–	–	–	1	64,071
J Graham	2015	745,962	$0.111	–	–	–	1	82,802
		7,454,424		–	–	–		821,198

1 These performance shares may vest in any year up until 20 August 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	–	–	–	2	328,050
M Dilizia	2015	577,212	$0.054	–	–	–	2	31,169
J Graham	2015	745,962	$0.054	–	–	–	2	40,282
		7,454,424		–	–	–		399,501

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

The share based payments expenses 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

There were no loans, payables, receivables or other transactions at the end of the financial year to 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').

The resolution to adopt the Company's Remuneration Report at two consecutive Annual General Meetings (being 2016 and 2017) had 25% or more of the votes cast against the resolution, the Spill Resolution was put to shareholders at the Company's 2017 Annual General Meeting and was passed. Accordingly, and as required by Section 250V of *Corporations Act 2001*, this meeting of shareholders, known as a 'Spill Meeting' was held on 16 February 2018 which was within 90 days after the 2017 Annual General Meeting.

As required by *Corporations Act 2001*, Ms Dilizia and Mr Graham ceased to hold office at the end of the Spill Meeting but were eligible for re-election.

There is no voting exclusion applicable to the Resolutions.

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.

Both Ms Dilizia and Mr Graham were unanimously re-elected as Directors of the Company at the Spill Meeting on 16 February 2018.

END OF REMUNERATION REPORT (AUDITED)

Meetings of Directors

During the financial year, 8 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	6	6	–	–	–	–
Ms Michele Dilizia	6	6	1	0	1	0
Mr James Graham	6	6	1	1	1	1
Dr John Prendergast	2	2	1	1	1	1

A = Number eligible to attend
B = Number 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 2018 has been received and can be found on page 24.

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

Dr Graham Melrose
Executive Chairman

28 September, 2018

AUDITOR'S INDEPENDENCE DECLARATION

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DECLARATION OF INDEPENDENCE BY MATTHEW CUTT TO THE DIRECTORS OF RECCE PHARMACEUTICALS LTD

As lead auditor of Recce Pharmaceuticals Ltd for the year ended 30 June 2018, 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.

Matthew Cutt

Director

BDO Audit (WA) Pty Ltd

Perth, 28 September 2018

CORPORATE GOVERNANCE STATEMENT

This corporate governance statement sets out Recce Pharmaceuticals Limited'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 September 2018 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 re-elect Dr John Prendergast (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 on 20 November 2018.

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: (1) to set measurable objectives for achieving gender diversity; and (2) to assess annually both the objectives and the entity's progress in achieving them;	YES	(a) The Company has adopted a Diversity Policy which complies with the guidelines prescribed by the ASX Corporate Governance Council, including: (1) the Diversity Policy provides a framework for the Company to set and achieve measurable objectives that encompass gender equality. (2) 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	(b) The Diversity Policy is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance.
(c) Disclose as at the end of each reporting period: (1) 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	(c) The Company strives to achieve the measurable objectives for achieving gender diversity as set out in the Diversity Policy.
(2) 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	As at 30 June 2018, the respective proportions of men and women on the Board, in Senior Executive positions and across the whole organisation are set out below. The Company defines Senior Executives as those employees who report directly to the Executive Chairman or the Board. • 75% of the Company's Board were male and 25% were female; • 100% of the Company's Senior Executives were male (excluding members of the Board) 22% of the Group's entire workforce (including Board members) were female and 78% were male.
(B) The entity's 'Gender Equality Indicators', as defined in the Workplace Gender Equality Act 2012.	N/A	

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 (b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	YES 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) During the period to 30 June 2018, the Nomination and Remuneration Committee did not undertake a performance evaluation of its board or its individual Directors as the Nomination and Remuneration Committee was only re-established following the appointment of a Non-Executive Director to the Board. The Company expects that the Nomination and Remuneration Committee will undertake such an evaluation during the 18/19 financial year.
1.7 A listed entity should: (a) Have and disclose a process for periodically evaluating the performance of its Senior Executives; and (b) Disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	YES 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) During the period to 30 June 2018, the Nomination and Remuneration Committee did not undertake a performance evaluation of Senior Executives as the Nomination and Remuneration Committee was only re-established following the appointment of a Non-Executive Director to the Board. The Company expects that the Nomination and Remuneration Committee will undertake such an evaluation during the 18/19 financial year.

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) Following the appointment of Dr John Prendergast to the Board during the period, the Company re-established the Nomination and Remuneration Committee with Dr Prendergast as Chair of the Committee. The Committee has three members, but due to the current size and structure of the Board of the Company, the majority of the committee members are not Independent. The times and attendance at each committee meeting is disclosed in section 23 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	NO	
(2) is chaired by an Independent Director,	YES	
and disclose:		
(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, experience, independence and knowledge 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) Page 10 – 12 of the Directors Report discloses which Directors were considered independent during the year.
(b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and recommendations (3rd Edition) but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and	YES	(b) Dr John Prendergast, the only Director of the Company considered independent, has 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 length of service of each Director is as follows: Mr Graham and Ms Dilizia were appointed as Directors on 23 June 2015. Dr Melrose was appointed a Director of the Company on 11 April 2007. Dr John Prendergast was appointed as a Non- Executive Director of the Company on 24 April 2018.

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 four Directors, of whom one is considered to be independent, being Dr John Prendergast. The Board does not currently consider an independent majority of the Board to be appropriate given: (a) The magnitude of the Company's operations; and (b) The relevant skills and experience of Dr Melrose, Ms Dilizia, Mr Graham and Dr Prendergast, mean that the Board is appropriately skilled at this stage, to further the progress and development of the Company. The Company is seeking to appoint Independent Directors in the future.
2.5 The Chair of the Board of a listed entity should be an Independent Director and, in particular, should not be the same person as the CEO of the entity.	NO	The Board does not have an independent Chair because as founder of Recce and lead-inventor of RECCE® 327, the Company considers that Dr Melrose is the best equipped person to progress the Company's future direction. The Company may seek to appoint an independent Chair in the future.
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.

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.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
4: Safeguard integrity in financial reporting		
4.1 The Board of a listed entity should:		
(a) have an audit committee which:		Following the appointment of Dr John Prendergast to the Board during the period, the Company re-established the Audit and Risk Management Committee with Dr Prendergast, an Independent Director of the Company, as Chair of the Committee. The Committee has three members, but due to the current size and structure of the Board of the Company, the majority of the committee members are not independent. The times and attendance at each committee meeting is disclosed in section 23 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	NO	
(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 21 November 2017 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.

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, Automic 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:		Following the appointment of Dr John Prendergast to the Board during the period, the Company re-established the Audit and Risk Management Committee with Dr Prendergast, an Independent Director of the Company, as Chair of the Committee. The Committee has three members, but due to the current size and structure of the Board of the Company, the majority of the committee members are not independent. The times and attendance at each committee meeting is disclosed in section 23 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, a majority of whom are Independent Directors; and	NO	
(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 risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	N/A	

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. At every Board meeting the Directors review the Company's Risk Register and related mitigation strategies.
(b) Disclose in relation to each reporting period, whether such a review has taken place.	YES	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) The Company formulated its risk management framework in preparation for the Company's admission to the official list of the ASX. A copy of the Risk Management Policy is available on the Company's website at https://recce.com.au/index.php/company/corporate-governance. At every Board meeting the directors review the Company's Risk Register and related mitigation strategies.
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. Throughout the period, the Board of the Company and the Audit and Risk Management Committee the Board have been reviewing the reports prepared by management in relation to the Company's risk profile.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY (Yes/No)	EXPLANATION
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 were announced to the market, in accordance with its continuous and other disclosure obligations pursuant to the ASX Listing Rules and the Corporations Act 2001. Also, prior to the Company's admission to the official list of the ASX, the Board undertook a thorough review of the Company's exposures to economic, environmental and social sustainability risks and disclosed these risks in its Prospectus dated 21 September 2015. A copy of this Prospectus is available on the Company's website at: www.recce.com.au
8: Remunerate fairly and responsibly		
8.1		
(a) The Board of a listed entity should have a remuneration committee which:		Following the appointment of Dr John Prendergast to the board during the period, the Company re-established the Nomination and Remuneration Committee with Dr Prendergast, an Independent Director of the Company, as Chair of the Committee. The Committee has three members, but due to the current size and structure of the Board of the Company, the majority of the committee members are not independent. The times and attendance at each committee meeting is disclosed in section 23 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	NO	
(2) is chaired by an independent director,	YES	
and disclose;		
(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.

CONSOLIDATED STATEMENT OF

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $	2017 $
Revenue	5	–	–
Other income	5	1,300,533	189,921
Expenses			
Laboratory expenses		(372,171)	(999,357)
Employee benefits expenses	6	(1,085,550)	(1,344,960)
Share based payments expense	20	(71,250)	(13,096)
Depreciation and amortisation expenses		(53,119)	(25,514)
Net foreign exchange gains/(losses)		–	(28,416)
Travel expenses		(185,051)	(48,915)
Patent related costs		(65,145)	(60,635)
Rental expenses		(179,979)	(181,977)
Finance costs	6	(54,306)	(2,406)
Other expenses	6	(908,250)	(510,149)
		(2,974,821)	(3,215,425)
Loss before income tax		(1,674,288)	(3,025,504)
Income tax expense	8	–	–
Loss for the year		(1,674,288)	(3,025,504)
Other comprehensive income for the year		–	–
Total comprehensive loss for the year		(1,674,288)	(3,025,504)
		Cents	Cents
Loss per share:			
Basic loss per share for the year	9	(1.98)	(3.95)
Diluted loss per share for the period	9	(1.98)	(3.95)
Dividends per share for the year		–	–

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF

FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	30 June 2018 $	30 June 2017 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	679,719	1,090,438
Trade and other receivables	11	20,957	60,185
Other current assets		7,821	3,365
TOTAL CURRENT ASSETS		708,497	1,153,988
NON-CURRENT ASSETS			
Plant and equipment	12	435,240	310,598
TOTAL NON-CURRENT ASSETS		435,240	310,598
TOTAL ASSETS		1,143,737	1,464,586
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	229,404	530,475
Financial liabilities	14	2,859	–
Provisions for employee benefits	15	184,128	159,820
TOTAL CURRENT LIABILITIES		416,391	690,295
NON-CURRENT LIABILITIES			
Financial liabilities	14	–	161,289
Provisions for employee benefits	15	32,431	22,858
TOTAL NON-CURRENT LIABILITIES		32,431	184,147
TOTAL LIABILITIES		448,822	874,442
NET ASSETS		694,915	590,144
EQUITY			
Share capital	16	10,031,509	8,235,009
Reserves	17	1,515,731	1,533,172
Accumulated losses		(10,852,325)	(9,178,037)
TOTAL EQUITY		694,915	590,144

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF

CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Share Capital $	Reserves $	Accumulated Losses $	Total $
BALANCE AT 1 JULY 2016	7,418,863	2,247,531	(6,152,533)	3,513,861
COMPREHENSIVE INCOME:				
Loss for the year	–	–	(3,025,504)	(3,025,504)
Other comprehensive income	–	–	–	–
	7,418,863	2,247,531	(9,178,037)	488,357
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:				
Conversion of performance shares	796,146	(796,146)	–	–
Issuance of shares	20,000	–	–	20,000
Option issued related to convertible notes	–	88,691	–	88,691
Share based payments	–	(6,904)	–	(6,904)
	816,146	(714,359)	–	101,787
BALANCE AT 30 JUNE 2017	**8,235,009**	**1 ,533,172**	**(9,178,037)**	**590,144**
BALANCE AT 1 JULY 2017	8,235,009	1,533,172	(9,178,037)	590,144
COMPREHENSIVE INCOME:				
Loss for the year	–	–	(1,674,288)	(1,674,288)
Other comprehensive income	–	–	–	–
	–	–	(1,674,288)	(1,674,288)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:				
Issuance of shares	1,796,500	–	–	1,796,500
Reversal of option reserve	–	(88,691)	–	(88,691)
Share-based payments	–	71,250	–	71,250
	1,796,500	(17,441)	–	1,779,059
BALANCE AT 30 JUNE 2018	**10,031,509**	**1 ,5315,731**	**(10,852,325)**	**694,915**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF

CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Australian Taxation Office		1,288,518	139,295
Payments to suppliers and employees		(3,028,564)	(2,705,298)
Interest received		12,015	70,542
Interest and other costs of finance paid		(4,286)	(2,406)
NET CASH USED IN OPERATING ACTIVITIES	18(a)	**(1,732,317)**	**(2,497,867)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(177,761)	(246,079)
NET CASH USED IN INVESTING ACTIVITIES		(177,761)	(246,079)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		34,310	249,980
Repayments of borrowings		(31,451)	(6,978)
Advances from a shareholder		50,000	–
Proceeds from issue of shares (net of costs)		1,446,500	–
NET CASH PROVIDED BY FINANCING ACTIVITIES		**1,499,359**	**243,002**
Net decrease in cash and cash equivalents held		(410,719)	(2,500,944)
Cash and cash equivalent at the beginning of the year		1,090,438	3,591,382
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	10	**679,719**	**1,090,438**
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Investing activities	18(b)	–	–
Financing activities	18(b)	300,000	816,146
		300,000	**816,146**

The accompanying notes form part of these consolidated financial statements.

1. Corporate Information

The consolidated financial statements of Recce Pharmaceuticals Ltd (formerly Recce Ltd) ('the Company') and together with its controlled entities ('the Group') for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 28 September 2018.

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

The nature of operations and principal activities of the Group are disclosed in the Directors' Report.

2. Significant Accounting Policies

(a) Basis of Preparation of the Financial Report

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

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

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

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

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

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

(b) Basis of Consolidation

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

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

(c) Foreign Currency Translation

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

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

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

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

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

(d) Revenue Recognition

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

Interest Income

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

Research and Development (R&D) Tax Incentive

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

(e) Income Tax

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

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

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries, associates and joint ventures where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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

(f) Impairment of Assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(g) Cash and Cash Equivalents

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

(h) Fair Values

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

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

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

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

(i) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

(j) Plant and Equipment

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

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

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

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

Depreciation

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

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

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

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

(k) Research Expenditure

Research costs are expensed as incurred.

(l) Trade and Other Payables

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

(m) Borrowings

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

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

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

(n) Other Liabilities

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

(o) Employee Benefit Provisions

Short-term employee benefit obligations

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

Other long-term employee benefits obligations

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

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

(p) Contributed Equity

Ordinary shares are classified as equity.

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

(q) Share-Based Payments

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

(r) Earnings/(Loss) Per Share

Basic earnings/(loss) per share

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

Diluted earnings/(loss) per share

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

(s) Goods and Services Tax (GST)

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

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

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

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

(t) Leases

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

(u) Convertible Notes and Embedded Derivatives

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

(v) Derivatives and Hedging Activities

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

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

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

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

When a hedging instrument expires or is sold or is terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

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

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

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

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

(x) Accounting Standards Issued But Not Yet Effective

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

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

- *AASB 9 Financial Instruments, AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9* (effective date to the Group on financial year 2019).

  These Standards will replace AASB 139: Financial Instruments: Recognition and Measurement. The key changes that may affect the Group on initial application of AASB 9 and associated amending Standards include:

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

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

- *AASB 16: Leases* (effective date to the Group on financial year 2020).

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

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

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

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

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

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

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

(y) Rounding of Amounts to Nearest Dollar

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

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

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Trinomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. For details of share based payments made during the year, see Note 20.

Impairment of non-financial assets

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

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

On initial recognition the value of the convertible note was calculated based on the difference between the proceeds received under the share purchase agreement and the fair value of the equity component (being the options issued at the commencement of the facility). The Options were valued using a Black Scholes option pricing model which takes into account the share price of the group and share price volatility (see details in Note 14). Subsequently the fair value of the convertible note is accreted up to its face value by taking into account the discount on the conversion of the shares in the future and share price, see details of the term of the convertible security and funding facility in Note 14 and its fair value disclosures in Note 19.

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

3. Going Concern

For the year ended 30 June 2018, the Group recorded a loss of $1,674,288 and had net cash outflows from operating activities of $1,732,317. 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 together with receiving a substantially increased R&D tax rebate.

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

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

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. This is due to the Group continuing to receive its Australian R&D tax rebates for R&D expenditure in Australia and overseas incurred by the Group as awarded by AusIndustry, a division of the Australian Government's Department of Industry, Innovation and Science and advance payments of its R&D tax incentive via the Group's agreement with Radium Capital and the ability of the company to raise funds through equity.

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 two geographic segment being Australia and USA.

(b) Segment results

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

	Segment revenue and other income for the year		Segment loss after tax for the year	
	2018 $	2017 $	2018 $	2017 $
Australia	876,275	139,295	(145,230)	(645,385)
USA	412,243	–	(68,323)	(996,913)
Central Administration	12,015	50,626	(1,460,735)	(1,383,206)
	1,300,533	189,921	(1,674,288)	(3,025,504)

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

(c) Segment assets and liabilities

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

(d) Segment net assets

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

	2018 $	2017 $

5: Revenue and Other Income

	2018 $	2017 $
Revenue	–	–
Other Income:		
Research and Development ('R&D') tax incentive	1,288,518	139,295
Interest income	12,015	50,626
Total other income	**1,300,533**	**189,921**

6: Expenses

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

	2018 $	2017 $

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):

	2018 $	2017 $
Audit services		
– BDO for audit and review of the consolidated financial statements	40,348	33,564
Non-Audit-related services		
– BDO for Investigating Accountant's Report for Prospectus	–	10,200
	40,348	43,764

8: Income Tax Expense

	2018 $	2017 $
Loss before income tax	(1,674,288)	(3,025,504)
The prima facie tax on loss from ordinary activities before income tax is reconciled to income tax as follows:		
– Prima facie tax payable on loss from ordinary activities before income tax at 27.5% (2017: 27.5%)	(460,429)	(832,014)
Add:		
Non-allowable items:		
– Share-based payments expense	19,594	3,601
– Expenses subject to R&D tax incentive	495,027	68
– Other non-allowable items	26,202	–
Less:		
– Non assessable income	(354,342)	
– Tax losses and deferred tax not recognised	273,948	828,345
Income tax attributable to the Group	–	–
Deferred tax assets not recognised by the Group:		
Tax losses carried forward	1,794,001	1,520,053
Accruals and provisions	60,507	50,716
Blackhole expenses	41,931	43,364
Patents	10,710	10,842
	1,907,149	1,624,975

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

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

	2018 $	2017 $

9: Loss Per Share

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

	2018 $	2017 $
Loss attributable to the members of the Company	(1,674,288)	(3,025,504)

	No.	No.
Weighted average number of shares		
Weighted average number of ordinary shares used in calculating basic losses per share	84,724,249	76,612,604
Effect of dilutive securities:		
– Adjusted weighted average number of ordinary shares used in calculating diluted losses per share	–	–
	84,724,249	76,612,604

Loss per share (cents per share):		
Basic loss for the year attributable to the members of the Company	(1.98)	(3.95)
Diluted loss for the year attributable to the members of the Company	(1.98)	(3.95)

	2018 $	2017 $

10: Cash and Cash Equivalents

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

Cash at bank and in hand bear floating interest rates between 1.50% and 2.65% depending on the amount on deposit. Refer Note 19 for additional risk exposure analysis.

11: Trade and Other Receivables

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

Refer Note 19 for additional risk exposure analysis.

	2018 $	2017 $

12: Plant and Equipment

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

Reconciliations

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

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

	Note	2018 $	2017 $

13: Trade and Other Payables

		2018 $	2017 $
CURRENT			
Unsecured liabilities			
Trade payables		125,378	255,353
Employee related payables		54,026	224,871
Sundry creditors		50,000	50,251
		229,404	530,475

14: Financial Liabilities

	Note	2018 $	2017 $
CURRENT			
Loans payable	14(a)	2,859	–
NON-CURRENT			
Convertible notes	14(b)	–	161,289

(a) Loans payable

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

(b) Convertible notes

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

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

- 178,715 shares at $0.1958 in satisfaction of the commitment fee of $35,000;
- 476,000 Collateral Shares to be held as security for funds advanced in monthly tranches; and
- 641,000 options, exercise price of $0.2593, expiry 21 June 2021. Refer to Note 17 for the model inputs used under the Black-Scholes option pricing model.

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

- 90% of the average 5 days consecutive daily VWAPs per Company Share during the 20 consecutive trading days immediately prior to the relevant conversion notice date selected by ASOF; and
- 130% of the average of each of the daily VWAPs during the 20 trading days immediately prior to 16 June 2017 calculated as 26 cents.

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

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

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

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

15: Provisions for Employee Benefits

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

16: Share Capital

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

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

Movements in ordinary shares on issue:

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

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

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

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

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

Options from shares issued

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

Particulars	Issue Date	Exercise Date	Exercise Price	2018	2017
			cents	No.	No.
Options	16-Jun-17	21-Jun-21	25.93	641,000	641,000
Tranche 1	19-Jul-17	19-Jul-20	21.71	59,880	–
Tranche 2	06-Sep-17	25-Aug-20	18.72	104,167	–
Tranche 3	29-Sep-17 2	9-Sep-20	17.80	109,569	–
Tranche 4	02-Nov-17	01-Nov-20	20.40	127,470	–
Tranche 5	01-Dec-17	30-Nov-20	20.96	124,069	–
Tranche 6	17-Jan-18	10-Jan-21	19.88	130,804	–
Tranche 7	16-Feb-18	13-Feb-21	19.81	65,617	–
				1,362,576	641,000

	Note	2018 $	2017 $

17: Reserves

	Note	2018 $	2017 $
Performance shares reserve	17(a)	1,444,481	1,444,481
Option reserve	17(b)	–	88,691
Share-based payments reserve	17(c)	71,250	–
		1,515,731	1,533,172

(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:	2018 $	2017 $
At beginning of year	1,444,481	2,240,627
Conversion to ordinary shares (refer to Note 16)	–	(796,146)
At end of year	1,444,481	1,444,481

(b) Option reserve

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

641,000 options were issued to ASOF during the financial year ended 30 June 2017 as per the terms and conditions of the Share Purchase and Convertible Security Agreement. The options are exercisable at $0.259 each on or before 21 June 2020. These options have been assessed in value at $88,691. The value of the options was calculated using the Black and Scholes model.

Model inputs used to value the options granted included:

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

	2018 $	2017 $
Movements of option shares reserve:		
At beginning of year	88,691	–
Reversal of the option reserve	(88,691)	–
Fair value of the options on the convertible notes (refer to Note 14(b))	–	88,691
At end of year	–	88,691

(c) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of ordinary shares to be issued to KMPs and Non-Executive Directors.

Movements of share-based payments reserve:	2018 $	2017 $
At beginning of year	–	6,904
Additions	71,250	–
Reversals	–	(6,904)
At end of year	71,250	–

Refer to Note 20 for details of the share-based payments.

18: Cash Flow Information

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

	2018 $	2017 $
Loss for the year	(1,674,288)	(3,025,504)
Adjustments and non-cash items:		
– Depreciation and amortisation	53,119	25,514
– Fair value movement of convertible notes	50,020	–
– Share-based payments expense	71,250	13,096
Change in operating assets and liabilities		
– Decrease/(Increase) in trade and other receivables	39,228	(20,620)
– (Increase)/Decrease in other current assets	(4,456)	3,067
– (Decrease)/Increase in trade and other payables	(301,071)	427,837
– Increase in provisions for employee benefits	33,881	78,743
Net cash outflow from operating activities	**(1,732,317)**	**(2,497,867)**

(b) Non-cash investing and financing activities:

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

19: 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 market forecasts for interest rate and foreign exchange prices. Liquidity risk is monitored through the development of future cash flow forecasts.

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

The main risks arising for the Group are foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The carrying values of the Group's financial instruments are as follows:

	2018 $	2017 $
Financial Assets		
At amortised cost		
Cash and cash equivalents	679,719	1,090,438
Trade and other recievables	20,957	60,185
	700,676	1,150,623
Financial Liabilities		
At amortised cost		
Trade payables and sundry creditors	175,378	305,604
Loans payable	2,859	–
Convertible notes	–	161,289
	178,237	466,893
Net exposure	522,439	683,730

(a) Derivatives

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

On 30 June 2016 the Company entered into a Forward Foreign Currency contract with Western Union Business Solutions. The Company bought US$1 million at an average US$/A$ exchange rate of 0.7329. This contract matured on 30 June 2017.

(b) Market Risk

(i) Foreign exchange risk

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

Foreign exchange risk arises from future commercial transactions denominated in a currency that is not the Group's functional currency. Over the next 12 months the Group will enter into contracts with contract research organisations in the USA to perform numerous laboratory tests as well as use the services of an expert consultant in the USA that will result in approximately US$1.1 million in expenditure.

(i) Interest rate risk

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

	2018		2017	
	Weighted average	Balance $	Weighted average	Balance $
Cash and cash equivalents	2.56%	679,677	1.31%	1,089,954

Sensitivity

Within this analysis, consideration is given to potential renewals of existing positions and the mix of fixed and variable interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. The 1% increase and 1% decrease in rates is based on reasonably expected possible changes over a financial year, using the observed range of historical rates for the preceding five year period.

At 30 June 2018, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax losses would have been affected as follows:

	Post tax loss higher/(lower)		Other comprehensive loss higher/(lower)	
	2018 $	2017 $	2018 $	2017 $
Judgements of reasonably possible movements:				
+ 1.0% (100 basis points)	(120)	(9,552)	(120)	(9,552)
- 1.0% (100 basis points)	120	9,552	120	9,552

The other financial instruments of the Group that are not included in the above tables are fixed interest and non-interest bearing and are therefore not subject to interest rate risk.

(c) Credit Risk

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

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

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

	Rating	2018 $	2017 $
Cash held with BankWest Bank	AA-	679,677	1,089,954

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.

(d) Liquidity Risk

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

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

The financial liabilities the Group had at reporting date were trade payables incurred in the normal course of the business. Trade payables were non-interest bearing and were deducted within the normal 30-60 day terms of creditor payments.

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

Contractual maturities of financial liabilities	<6 months $	>6 – 12 months $	>12 months $	Total contractual cash flows $	Carrying amount $
30 June 2018					
Trade payables	125,378	–	–	125,378	125,378
Employee related payables	54,026	–	–	54,026	54,026
Sundry creditors	50,000	–	–	50,000	50,000
Loan payable	2,859	–	–	2,859	2,859
	232,263	–	–	232,263	232,263
30 June 2017					
Trade payables	255,353	–	–	255,353	255,353
Employee related payables	224,871	–	–	224,871	224,871
Sundry creditors	50,251	–	–	50,251	50,251
Convertible notes	–	–	166,289	166,289	161,289
	530,475	–	166,289	696,764	691,764

At 30 June 2018, the Group had sufficient cash to meet the financial liabilities as and when they are due and payable.

	2018 $	2017 $
(e) Recurring Fair Value Measurements		
The following financial instruments are subject to recurring value measurements:		
Level 3 – Convertible security	–	161,289

Due to their short term nature, the carrying amounts of the current receivables and payables are assumed to approximate their fair value.

(f) Fair Value Hierarchy

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

(i) Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets and liabilities;

(ii) Level 2 – a valuation technique using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (ie as prices), or indirectly (ie derived from prices); or

(iii) Level 3 – a valuation technique using inputs that are not based on observable market data (unobservable inputs).

Valuation Techniques to Derive Level 3 Fair Values

Convertible security at fair value through profit or loss

The fair value of the convertible security is determined based on the accretion of its carrying amount recognised at inception up to its face value by taking into account the discount on the conversion of the shares in the future and share price. During the financial year, the security was converted to equity.

	2018 $	2017 $

20: Share-Based Payments

Share-based payments expense recognised during the financial year:		
Shares issued to Key Management Personnel (KMP)[1]	25,000	–
Shares issued to KMP as 'sign-on' bonus[2]	46,250	20,000
Shares not issued to non-executive directors during the year[3]	–	(6,904)
	71,250	13,096

1 The amount pertained to the entitlement of the Executives of the Company, J Ward and A Kollaras as part of their compensation. The shares were not yet issued as at 30 June 2018 totaling to 142,857 shares valued at$0.175 per share.

2 Pertained to a sign-on bonus of J Prendergast after joining as a Non-Executive Director of the Company. The allocation of 250,000 shares will be subject to shareholder approval at the next Annual General Meeting.

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

Detailed share-based payment disclosures are provided in the Remuneration Report on pages 15 to 23.

21: Related Party Transactions

Parent entity

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

Subsidiaries

Interests in subsidiaries are disclosed in Note 23.

	2018 $	2017 $
Key management personnel compensation		
Short-term employee benefits	836,678	880,864
Post-employment benefits	108,341	83,680
Termination payments	21,263	–
Share-based payments	71,250	20,000
	1,037,532	984,544

Detailed remuneration disclosures are provided in the Remuneration Report on pages 15 to 23.

The following transactions occurred with related parties:

Superannuation contributions		
Contributions to superannuation funds on behalf of employees	108,341	83,680

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

22: Parent Entity Information

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

	2018 $	2017 $
(a) Summarised statement of financial position		
Current assets	708,497	1,153,988
Non-current assets	435,240	310,598
Total assets	1,143,737	1,464,586
Current liabilities	416,391	690,295
Non-current liabilities	32,431	184,147
Total liabilities	448,822	874,442
Share capital	10,031,509	8,235,009
Reserves	1,515,731	1,533,172
Accumulated losses	(10,852,325)	(9,178,037)
Net Assets	694,915	590,144
(b) Summarised consolidated statement of profit or loss and other comprehensive income		
Loss for the year	(1,674,288)	(3,025,504)
Other comprehensive income	–	–
Total comprehensive loss for the year	(1,674,288)	(3,025,504)

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

23: Interest in Subsidiaries

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

24: Contingent Liabilities and Contingent Assets

The Group is not aware of any contingent liabilities or contingent assets as at 30 June 2018.

	2018 $	2017 $

25: Commitments

The Group is not aware of any contingent liabilities or contingent assets as at 30 June 2018.

(a) Lease Commitments

Non-cancellable operating leases – future minimum lease payments, payable:

	2018 $	2017 $
Within one year	173,116	166,661
Later than one year but not later than five years	71,934	232,526
Later than five years	–	–
	245,050	399,187

The Group leases various premises under non-cancellable operating leases expiring between one and two years. All leases have annual CPI escalation clauses. Lease terms usually run for two years with a two-year renewal option. Lease conditions do not impose any restrictions on the ability of Group from borrowing further funds or paying dividends.

(b) Capital Expenditure Commitments

	2018 $	2017 $
The Group issued a purchase order to update the HPLC	–	11,000
Payable – within one year	–	11,000

26: Subsequent Events

No other matter or circumstance has arisen since 30 June 2018, which has significantly affected, or may significantly affect the state of affairs of the Group in subsequent financial years.

DIRECTORS' 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 36 to 62, 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 2018 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 Director's 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.

Dr Graham Melrose
Executive Chairman

28 September, 2018

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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 2018, 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 2018 and of its financial performance for the year ended on that date; and

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

Basis for opinion

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

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

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

Material uncertainty related to going concern

We draw attention to Note 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 for Settlement of the Convertible Security Agreement

Key audit matter	*How the matter was addressed in our audit*
On 16 June 2017 the company signed a Share Purchase and Convertible Security Agreement which was converted into shares in the current year and has been disclosed in Note 14 of the financial report. Accounting for settlement of the convertible notes was considered a key audit matter due to the complexity and judgements involved in determining the impact of the settlement due to the various conversion features embedded within the term of the note.	Our audit procedures in this area included, but were not limited to: • Holding discussions with management and reviewing the share purchase and convertible security agreement to understand the key terms and conditions of the transaction; • Inspecting Board minutes and other appropriate documentation of authorisation to assess whether the conversions were appropriately authorised; • Checking management's calculations carried out in respect of the valuation of each conversion and the settlement of the convertible note liability; and • Assessing the adequacy of the related disclosures in the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, 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 (http://www.auasb.gov.au/Home.aspx) at:

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

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 23 of the Annual report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Recce Pharmaceuticals Ltd, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

BDO Audit (WA) Pty Ltd

BDO

M Cutt

Matthew Cutt

Director

Perth, 28 September 2018

ASX ADDITIONAL INFORMATION

Shareholder Information as at 14 September 2018

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 14 September 2018)

The number of shareholders by size of holding for fully paid ordinary shares are:

Holding	Number of shareholders	Number of shares	%
1 – 1,000	26	4,330	0.01
1,001 – 5,000	183	599,160	0.67
5,001 – 10,000	203	1,790,888	2.00
10,001 – 100,000	512	18,682,279	20.91
100,001 and over	100	68,265,761	76.41
Total	1,024	89,342,418	100.00

(b) Twenty largest shareholders (as at 14 September 2018)

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

	Name	Number of Shares	%
1	Mr Graham Melrose and Ms Olga Melrose	30,375,003	34.00
2	Mr David Foord	4,149,642	4.64
3	Mr James Graham	3,649,851	4.09
4	Ms Michele Keryn Dilizia	2,886,061	3.23
5	Querion Pty Ltd	2,100,000	2.35
6	The Australian Special Opportunity Fund LP	1,470,978	1.65
7	Code Nominees Pty Ltd <22371 A/C>	1,295,556	1.45
8	State One Stockbroking Ltd	1,240,000	1.39
9	Ms Fiona Elizabeth Graham	1,125,000	1.26
10	Golden Rivers Mining Pty Ltd	978,570	1.10
11	Mr Nikolai Shirobokov & Mrs Svetlana Shirobokov	641,391	0.72
12	Arthur Deryck Bray Graham & Nanette Graham	550,000	0.62
13	McCray Investments Pty Ltd <McCray Family S/F Account>	546,007	0.61
14	Mr Peter Mackiewicz	500,000	0.56
	Super and Investment Holdings Pty Ltd <Nettleton Family S/F A/C>	500,000	0.56
15	Mrs Pauline Maria Grooby	493,714	0.55
16	Mr Christopher James Frisch & Mr Paul Edward Frisch <Fredflint Superfund A/C>	450,000	0.50
17	Mr Frank Houston McClymont	420,867	0.47
18	Mr Raymond Victor Steffanoni & Mrs Sally Anne Steffanoni <Steffanoni Super Fund A/C>	400,000	0.45
19	Bjark Pty Ltd <The Bjark Superannuation Fund A/C>	375,000	0.42
20	Hughmarus Pty Ltd <Hugh & Mary Bradley S/F A/C>	357,000	0.40
Total		54,504,640	61.01
Balance of Register		89,342,418	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 14 September 2018.

Name	Number of Shares	%
Mr Graham Melrose and Ms Olga Melrose	30,375,003	34.00
Mr David Foord	4,149,642	4.64
Mr James Graham	3,649,851	4.09
Ms Michele Keryn Dilizia	2,886,061	3.23
Querion Pty Ltd	2,100,000	2.35

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Share buyback

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

CORPORATE DIRECTORY

FOR THE YEAR ENDED 30 JUNE 2018

Stock Exchange Listing

Australian Securities Exchange (ASX)
ASX code: RCE

Directors

Dr Graham Melrose
Executive Chairman

Ms Michele Dilizia
Executive Director

Mr James Graham
Executive Director

Dr John Prendergast
Non-Executive Director

Company Secretary

Alistair McKeough

Chief Financial Officer

Justin Reynolds

Share Register

Automic Pty Ltd
Level 3, 50 Holt St
Surry Hills NSW 2010
Phone: 1300 288 664 (within Australia)
Phone: +61 (2) 9698 5414 (outside Australia)

Auditor

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco, WA 6008

Registered Offices

Sydney – Head Office
Level 36, 1 Macquarie Place
Gateway Tower
Sydney NSW 2000
Australia
Phone: +61 (2) 8075 4585

Macquarie Park – Manufacturing
Unit 8, 64 Talvera Road
Macquarie Park NSW 2113
Australia

Perth – Research & Development
Suite 10, 3 Brodie Hall Drive
Technology Park
Bentley WA 6102
Australia

North America – Operations
Suite 1025
1717 Pennsylvania Avenue
Washington DC 20006
USA

Annual General Meeting

The Annual General Meeting will be held
on the 20 November 2018.

Automic Group
Level 5, 126 Phillip Street
Sydney NSW 2000

www.recce.com.au

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