RECCE PHARMACEUTICALS LTD

Appendix 4D

Current Reporting Period: **31 December 2019**

Previous Reporting Period: **31 December 2018**

Results for Announcement to the Market

		Percentage Change		$
Revenue from ordinary activities	-	0.00%	to	-
Loss from ordinary activities after tax attributable to members	up	25.02%	to	(1,331,787)
Net loss for the period attributable to members	up	25.02%	to	(1,331,787)

Brief explanation of Results

Operational Report

During the reporting period, significant advances were made in support of the development of the Company's broad-spectrum synthetic antibiotic program. Highlights for the half year to 31 December 2019 included:

•**Successful placement of $6.78m in fully paid ordinary shares** at $0.26/share

• **Receipt of a $1,071,727 million Research and Development incentive** refund from the Australian Government - 43.5% rebate on approximately 71% of total annual expenditure

•**Expansion of wholly owned patent estate** – Patent Family 2 Grants in Europe & Japan

• **Positive US Food & Drug Administration (FDA)** response to a chemistry manufacturing data-pack submission at a 5-fold scaled increase

• **Therapeutic Goods Administration (TGA) clearance** to explore requests for use under the Special Access Scheme

• **Positive efficacy data from independent topical skin infection study** against Methicillin-resistant Staphylococcus aureus (MRSA) superbug in rats- statistically significant (and control superior) efficacy in burn wound skin-infection and healing capabilities.

• **Ongoing market awareness programs** – Opening Address at World Superbug Congress and presentation to the World Anti-Microbial Resistance Summit Singapore.

•**Broadened clinical trial opportunities** and related protocol programs.

Clinical progress

The Company is greatly encouraged by these advances, which have been pivotal in the delivery of further intravenous infusion study safety data in small animals, indicating a wide therapeutic dose window.

Positive kidney and urinary tract infection efficacy data indicates the potential use of RECCE® 327 across the full therapeutic approach to the treatment of patients with sepsis.

With a compelling data package, the business is on track to formalise a clinical trial agreement to start a first-in-human Phase I trial and, submit an application to start a topical Phase I/II trial. We look forward to providing updates as these programs advance.

Strong financial position

The Company's cash position of $4.6 million at 31 December 2019 combined with significant accrued research and development rebate credits means Recce Pharmaceuticals is sufficiently funded to execute its development milestones through the 2020 financial year.

The Company's vision is to help address the urgent global health problem of antibiotic resistant bacteria and the team at Recce will continue to embark on programs that bring that vision to reality.

Financial Report

The half-year operating loss for the period was $1,331,787 (2018: loss of $1,065,299). The increase was a result of increased R&D related costs and share based payment expenses.

The loss per share for the period was 1.12 cents (2018: 1.19 cents).

Dividends

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

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

Net Tangible Assets per Security

As at 31 December 2019 (cents)	3.52
As at 31 December 2018 (cents)	-0.41

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

RECCE PHARMACEUTICALS LTD

ABN 73 124 849 065

INTERIM REPORT

FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

RECCE PHARMACEUTICALS LTD
ABN 73 124 849 065

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

The Directors present their report together with the interim consolidated financial report of Recce Pharmaceuticals Ltd (the "Company") and controlled entities (the "Group") for the half-year ended 31 December 2019.

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

Dr John Prendergast	Non-Executive Chairman (appointed 9 July 2019)
Dr Graham Melrose	Executive Director
Ms Michele Dilizia	Executive Director
Mr James Graham	Executive Director
Dr Justin Ward	Executive Director (appointed 9 July 2019)

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

On 30 July 2019, the Company announced a further R&D advance from Radium Capital in the amount of $262,462.

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

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

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

On 26 August 2019, the Company announced advances in scaled manufacture and drug quality following positive Food and Drug Administration (FDA) feedback to its Chemistry, Manufacturing and Controls (CMC) data pack. Recce's manufacture of its lead antibiotic compound RECCE® 327 has achieved a 500% increase in production and robust operational outputs.

On 30 August 2019, the Company announced a successful grant application as 1 of 5 Industrial Partners in collaboration with 16 University and Public Health Organisations, to establish a National Anti-Microbial Resistant (AMR) Research Hub (the Hub) in Sydney, Australia to combat antimicrobial resistance. The Australian Research Council (ARC) has awarded almost $5 million to the Hub. Recce and other leading industry partner organisations will engage with Australia's key researchers and wider stakeholders to address the urgent challenge of antimicrobial resistance.

On 11 September 2019, the Company announced that it had secured $500,000 of additional funding to provide short term working capital via the issue of 750,000 shares at $0.20 per share and short term loans of $350,000.

On 18 September 2019, the Company announced the receipt of its annual R&D rebate totalling $1,071,727 and after the settlement of all loans netted $163,672.

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

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

On 23 October 2019, the Company published a white paper providing pre-clinical and experimental data on its new synthetic antibiotics and outlining the market need, its anticipated market positioning and development strategy . The paper titled "How Synthetic Antibiotic Development Can Change the Antibiotic Treatment Model" was distributed ahead of the World Anti-Microbial Resistance Congress.

On 27 November 2019, the Company announced positive data in a rat topical burns model from an assessment of its lead compound RECCE® 327 in addressing the unmet medical needs of burns treatment and associated difficulties in wound closure.

RECCE PHARMACEUTICALS LTD
ABN 73 124 849 065

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

Results of Operations

The half-year operating loss for the period was $1,331,787 (2018: loss of $1,065,299). The increase was as a result of increased R&D related costs. The Group's current focus is on progressing RECCE® 327 into human clinical trials.

Events Subsequent to Reporting Period

1,250,000 Corporate Advisor Options were exercised at $0.312 resulting in the receipt of $390,000.

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

Rounding of amounts

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

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

Dr John Prendergast
Non-Executive Chairman

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Australia

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

As lead auditor for the review of Recce Pharmaceuticals Ltd for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

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

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

Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 27 February 2020

RECCE PHARMACEUTICALS LTD
ABN 73 124 849 065

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

	Note	2019 $	2018 $
Revenue		-	-
Other income			
Research and Development ("R&D") tax incentive		1,071,727	679,624
Interest income		9,267	1,904
		1,080,994	681,528
Expenses			
Laboratory expenses		(725,834)	(323,123)
Employee benefits expenses		(677,119)	(678,585)
Depreciation and amortisation expenses		(25,341)	(26,681)
Share based payments expense	**17**	(32,999)	-
Travel expenses		(166,487)	(117,397)
Patent related costs		(43,631)	(43,117)
Rental outgoing expenses		(32,097)	(71,815)
Finance costs		(44,961)	(38,702)
Other expenses		(582,670)	(447,407)
Amortisation: Leases		(75,054)	-
Interest expenses: Leases		(6,589)	-
		(2,412,781)	(1,746,827)
Loss before income tax		**(1,331,787)**	**(1,065,299)**
Income tax expense		-	-
Loss for the period after income tax		**(1,331,787)**	**(1,065,299)**
Other comprehensive income		-	-
Total comprehensive loss for the period		**(1,331,787)**	**(1,065,299)**
		Cents	**Cents**
Loss per share:			
Basic loss per share for the period	**6**	(1.12)	(1.19)
Diluted loss per share for the period	**6**	(1.12)	(1.19)
Dividends per share for the period	**7**	**-**	**-**

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

RECCE PHARMACEUTICALS LTD
ABN 73 124 849 065

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31 December 2019 $	30 June 2019 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	4,665,084	403,384
Trade and other receivables		39,093	36,517
Other current assets	9	106,293	13,200
TOTAL CURRENT ASSETS		4,810,470	453,101
NON-CURRENT ASSETS			
Plant and equipment	10	449,569	469,083
Right of Use Asset	11	155,441	-
TOTAL NON-CURRENT ASSETS		605,010	469,083
TOTAL ASSETS		**5,415,480**	**922,184**
LIABILITIES			
CURRENT LIABILITIES			
Trade and Other Payables	12	239,475	320,522
Financial liabilities	13	-	737,408
Provisions for employee benefits		234,179	215,410
Lease liabilities		127,513	-
TOTAL CURRENT LIABILITIES		601,167	1,273,340
NON-CURRENT LIABILITIES			
Provisions for employee benefits		66,846	54,448
Lease liabilities		30,728	-
TOTAL NON-CURRENT LIABILITIES		97,574	54,448
TOTAL LIABILITIES		**698,741**	**1,327,788**
NET (LIABILITIES)/ ASSETS		**4,716,739**	**(405,604)**
EQUITY			
Share capital	14	17,672,275	11,573,369
Reserves	15	2,017,706	1,662,549
Accumulated losses		(14,973,242)	(13,641,522)
TOTAL EQUITY		**4,716,739**	**(405,604)**

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

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

	Share Capital $	Reserves $	Accumulated Losses $	Total $
BALANCE AT 1 JULY 2018	10,031,509	1,515,731	(10,852,325)	694,915
COMPREHENSIVE INCOME:				
Loss for the period	-	-	(2,789,197)	(2,789,197)
Other comprehensive income	-	-	-	-
	-	-	(2,789,197)	(2,789,197)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:				
Issuance of shares	1,688,678	-	-	1,688,678
Conversion of convertible notes	-	-	-	-
Options cost expense on placement	(146,818)	146,818	-	-
Conversion of convertible notes	-	-	-	-
Share based payments	-	-	-	-
	1,541,860	146,818	-	1,688,678
BALANCE AT 30 JUNE 2019	**11,573,369**	**1,662,549**	**(13,641,522)**	**(405,604)**
BALANCE AT 1 JULY 2019	11,573,369	1,662,549	(13,641,522)	(405,604)
COMPREHENSIVE INCOME:				
Loss for the period	-	-	(1,331,787)	(1,331,787)
Other comprehensive income	-	-	-	-
	-	-	(1,331,787)	(1,331,787)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:				
Issuance of shares	6,421,064	-	-	6,421,064
Conversion of convertible notes	-	-	-	-
Options cost expense on placement	(426,407)	426,407	-	-
Conversion of convertible notes	-	-	-	-
Share based payments	32,999	-	-	32,999
Transfers from reserves to share capital	71,250	(71,250)	-	-
	6,098,906	355,157	-	6,454,063
BALANCE AT 31 DECEMBER 2019	**17,672,275**	**2,017,706**	**(14,973,309)**	**4,716,672**

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

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

	2019	2018
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Australian Taxation Office	1,071,727	679,624
Payments to suppliers and employees	(2,452,162)	(1,656,444)
Interest received	9,267	1,904
Interest and other costs of finance paid	(44,961)	(38,702)
NET CASH USED IN OPERATING ACTIVITIES	**(1,416,129)**	**(1,013,618)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of plant and equipment	(5,827)	(83,958)
NET CASH USED IN INVESTING ACTIVITIES	**(5,827)**	**(83,958)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	-	456,000
Repayments of loans	(737,408)	(2,859)
Proceeds from issue of shares	6,421,064	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	**5,683,656**	**453,141**
Net increase/(decrease) in cash and cash equivalents held	4,261,700	(644,435)
Cash and cash equivalent at the beginning of the period	403,384	679,719
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**4,665,084**	**35,284**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

NOTE 1: GENERAL INFORMATION

The consolidated financial report of Recce Pharmaceuticals Ltd (the "Company") and its controlled entities (the "Group") for the half year ended 31 December 2019 was authorised for issue in accordance with a resolution of the Directors on 27 February 2020.

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

NOTE 2: ACCOUNTING POLICIES

(a) Basis of preparation of the consolidated financial report

These financial statements are general purpose financial statements for the half year ended 31 December 2019 have been prepared in accordance with Australian Accounting Standards 134 Interim Financial Reporting and the Corporations Act 2001.

The half year consolidated financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report. Accordingly, the half-year consolidated financial report should be read in conjunction with the annual report for the year ended 30 June 2019 and considered together with any public announcements made by the Company during the half year ended 31 December 2019 in accordance with the continuous disclosure obligations of the ASX Listing Rules and the Corporations Act 2001.

The accounting policies applied in these half year consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2019, with the exception of the groups adoption of IFRS 16: Leases during the period.

Historical Cost Convention

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

(b) Adoption of new and revised standards

The Group has reviewed all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current half-year. The Group has also reviewed all standards and interpretations that have been issued but are not yet effective for the half-year ended 31 December 2019. As a result of this review, the Directors have determined that there is no material impact on the Group and, therefore no material change is necessary to Group accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

NOTE 2: ACCOUNTING POLICIES (CONTINUED)

(b) Rounding of amounts to nearest dollar

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

(c) New and revised accounting standards effective at 1 July 2019

The Group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2019, including AASB 16 Leases.

Being effective this period, AASB 16 replaced AASB 117: Leases and introduced a single lessee accounting model that required 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:

(a) 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:

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

ii. 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

(b) 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 of the predecessor standard, AASB 117. Accordingly, under AASB 16 a lessor continues 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 accounts for each type of lease in a manner consistent with the current approach under AASB 117.

In accordance with the transition requirements of AASB 16, the Group has elected to apply AASB 16 using the modified retrospective approach to those contracts that were previously identified as leases under the predecessor standard, with the cumulative effect, if any, of initially applying the new standard recognised as an adjustment to opening retained earnings at the date of initial application (i.e., at 1 July 2019). Accordingly, comparative information has not been restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

NOTE 2: ACCOUNTING POLICIES (CONTINUED)

(c) New and revised accounting standards effective at 1 July 2019 (Continued)

The Group has also elected to apply the following practical expedients to the measurement of right-of-use assets and lease liabilities in relation to those leases previously classified as operating leases under the predecessor standard:

– to recognise each right-of-use asset at the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application;

The application of AASB 16 resulted in the recognition of right-of-use assets with an aggregate carrying amount of $155,441 (referred to in these financial statements as “lease assets”) and corresponding lease liabilities with an aggregate carrying amount of $158,241. The weighted average incremental borrowing rate applied in the calculation of the initial carrying amount of lease liabilities was 7.03%.

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

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

Further details of the Group’s accounting policy for leases, for the half-year period ended 31 December 2019, is as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

NOTE 2: ACCOUNTING POLICIES (CONTINUED)

(c) New and revised accounting standards effective at 1 July 2019 (Continued)

Lease assets

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

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

Lease liabilities

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

Subsequent to initial recognition, lease liabilities are measured at the present value of the remaining lease payments (i.e., the lease payments that are unpaid at the reporting date). Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments and any lease modifications not accounted for as separate leases. Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

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

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

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the consolidated financial statements. Management continually evaluates its 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

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

Performance Shares
The Company had previously issued 8,754,425 performance shares which will convert into ordinary shares upon achievement of certain milestones. The likelihood of achieving these milestones was assumed to be nil probability as at 31 December 2019 and as a result no share-based payment expense has been recognised. This assessment will be required to be carried out at each reporting period. Should the milestones vest or the probability of achievement be very likely than a share-based payment expense will be recognised.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. At 31 December 2019, no deferred tax assets on temporary differences and carry forward losses were recognised.

NOTE 4: GOING CONCERN

For the period ended 31 December 2019, the Company recorded a loss of $1,331,787 (2018: $1,065,299) and had net cash outflows from operating activities of $1,416,129 (2018: $1,013,618). The ability of the Company to continue as a going concern and being able to continue to fund its operating activities is dependent on securing additional funding through share placements to new or existing investors and financial support through short term loans, together with continuous receipt of the R&D tax rebate.

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

The Directors believe there are sufficient funds to meet the Company'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. Additional funds will be raised via share placements and/or other financing options as required.

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

- The Directors have prepared cash flow projections that support the ability of the Company to continue as a going concern, subject to raising additional funds through equity as detailed above; and

- The Company continually receiving its Australian R&D tax rebates for R&D expenditure in Australia and overseas incurred by the Company.

Should the Company 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 Company not continue as a going concern.

NOTE 5: SEGMENT INFORMATION

(a) Reportable segments

The Directors have considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board of Directors) in allocating resources and have concluded that at this time there are no separate identifiable segments as the Group operates in only one business segment being research and development of pharmaceutical drugs. However, the Group operates in 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 period		Segment loss after tax for the period	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	$	$	$	$
Australia	744,890	609,050	(181,066)	(236,849)
USA	336,104	72,478	(80,398)	(50,115)
UK	-	-	-	-
Central Administration	-	-	(1,070,322)	(778,335)
	1,080,994	**681,528**	**(1,331,787)**	**(1,065,299)**

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the Group's 30 June 2019 notes to the consolidated financial statements. Segment loss represents the loss after tax incurred by each segment. This is the measure reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance.

(c) Segment assets and liabilities

	Segment assets at end of the period		Segment liabilities at end of the period	
	31 December 2019	30 June 2019	31 December 2019	30 June 2019
	$	$	$	$
Australia	420,843	440,223	-	-
USA	-	-	-	-
UK				
Central Administration	4,994,637	481,961	698,741	1,327,788
	5,415,480	**922,184**	**698,741**	**1,327,788**

NOTE 5: SEGMENT INFORMATION (Continued)

(d) Segment net assets

	31 December 2019 $	30 June 2019 $
Australia	420,843	440,223
USA	-	-
Central Administration	4,295,896	(845,827)
	4,716,739	**(405,604)**

NOTE 6: LOSS PER SHARE

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

	31 December 2019 $	31 December 2018 $
Loss for the period attributable to the members of the parent	**(1,331,787)**	**(1,065,299)**
Weighted average number of shares:		
Weighted average number of ordinary shares used in calculating basic loss per share	119,213,994	89,342,418
Effect of dilutive securities:		
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share	-	-
	119,213,994	**89,342,418**
Loss per share (cents per share):		
Basic loss per share for the period	(1.12)	(1.19)
Diluted loss per share for the period	(1.12)	(1.19)

NOTE 7: DIVIDENDS PAID AND PROPOSED

The Company had not declared any dividends during and/or since the end of the half-year 31 December 2019 (31 December 2018: $nil).

NOTE 8: CASH AND CASH EQUIVALENTS

Cash at bank	4,664,954	403,286
Cash on hand	130	98
	4,665,084	**403,384**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

NOTE 9: OTHER CURRENT ASSETS	31 December 2019	30 June 2019
	$	$
Prepayments	49,715	10,000
Rental Deposits	3,200	3,200
Sundry Debtors	51,378	-
Other Current Assets	2,000	-
	106,293	**13,200**

NOTE 10: PLANT AND EQUIPMENT

NON-CURRENT		
Laboratory plant and equipment		
At cost	507,449	504,074
Less accumulated depreciation	(136,795)	(115,632)
	370,654	388,442
Office furniture and equipment		
At cost	28,420	27,753
Less accumulated depreciation	(9,071)	(8,220)
	19,349	19,533
Computer equipment		
At cost	30,630	28,845
Less accumulated depreciation	(21,409)	(19,673)
	9,221	9,172
Office improvements		
At cost	56,835	56,835
Less accumulated depreciation	(8,471)	(7,119)
	48,364	49,716
Library and website costs		
At cost	7,176	7,176
Less accumulated depreciation	(5,195)	(4,956)
	1,981	2,220
Total Plant and Equipment	**449,569**	**469,083**

Reconciliations

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

	$
Opening balance, 1 July 2019	469,083
Additions	5,827
Depreciation expense	(25,341)
Ending balance, 31 December 2019	**449,569**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

NOTE 11: NON-CURRENT ASSETS - RIGHT-OF-USE ASSETS	31 December 2019	30 June 2019
	$	$
Land and buildings - right-of-use	230,495	-
Less: Accumulated depreciation	(75,054)	-
	155,441	**-**

Right-of-use assets relate to the adoption of AASB 16: Leases on 1 July 2019. Refer to Note 1(c) for further information.

NOTE 12: TRADE AND OTHER PAYABLES	31 December 2019	30 June 2019
	$	$
CURRENT		
Trade payables	54,972	124,413
Employee related payables	104,003	94,609
Sundry creditors	52,500	52,600
Other Payables	28,000	48,900
	239,475	**320,522**

NOTE 13: FINANCIAL LIABILITIES

CURRENT		
Loans payable[1]	-	150,000
R&D Advance[2]	-	587,408
	-	**737,408**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

NOTE 14: SHARE CAPITAL

	31 December 2019		30 June 2019	
	No.	**$**	**No.**	**$**
Issued and fully paid ordinary shares	134,050,318	17,672,275	107,129,919	11,573,369
Collateral shares issued in trust	-	-	-	-
	134,050,318	**17,672,275**	**107,129,919**	**11,573,369**
Movements in ordinary shares on issue				
Opening balance	107,129,919	11,573,369	89,342,418	10,031,509
Shares issued during the period:				
- shares issued through Share Purchase Plan	-	-	-	-
- shares issued to ASOF	-	-	-	-
- shares issued to consultants/KMP[1]	137,922	32,999	430,358	-
- leave shares	-	-	-	-
Issued in trust under Collateral	-	-	-	-
Placement Deed[2]	-	-	4,500,000	-
- new shares issued from placement (net of costs)	26,782,477	5,994,657	12,857,143	1,541,860
	26,920,399	6,027,656	17,787,501	1,541,860
Transfer from reserves to share capital	-	71,250	-	-
	-	71,250	-	-
Total[3]	**134,050,318**	**17,672,275**	**107,129,919**	**11,573,369**

(b) Movements in ordinary shares on issue

[1]Refer to Note 17 for a summary of shares issued to consultants, employees and KMP during the period.
[2]The Company entered into a Controlled Placement Deed ('CPD') with Acuity Capital Investment Management Pty Ltd as trustee for The Acuity Capital Holdings Trust ('Acuity'). The CPD grants an option to Acuity to issue Recce shares at the discretion of Recce, and which Acuity has the discretion to either accept or decline. Recce may at any time cancel the CPD and buy back the collateral shares for no consideration. On 15 February 2019, 4,500,000 Ordinary shares were issued to Acuity Capital as collateral shares pursuant to the Controlled Placement Deed. During the period ended 31 December 2019, 750,000 Ordinary shares were issued at 0.20 cents per share.

NOTE 14: SHARE CAPITAL (CONTINUED)

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

[3]At 31 December 2019, 134,050,318 ordinary shares on issue were quoted in ASX.

(c) Options from shares issued

Particulars	Issue Date	Exercise Date	Exercise Price cents	31 December 2019 No.	30 June 2019 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	59,880
Tranche 2	06-Sep-17	25-Aug-20	18.72	104,167	104,167
Tranche 3	29-Sep-17	29-Sep-20	17.80	109,569	109,569
Tranche 4	02-Nov-17	01-Nov-20	20.40	127,470	127,470
Tranche 5	01-Dec-17	30-Nov-20	20.96	124,069	124,069
Tranche 6	17-Jan-18	10-Jan-21	19.88	130,804	130,804
Tranche 7	16-Feb-18	13-Feb-21	19.81	65,617	65,617
Options	15-Feb-19	15-Feb-23	16.80	1,800,000	1,800,000
Options	19-Dec-19	19-Feb-23	31.20	2,500,000	-
				5,662,576	3,162,576

NOTE 15: RESERVES

	31 December 2019 $	30 June 2019 $
Performance shares reserve	1,444,481	1,444,481
Share-based payments reserve	-	71,250
Options reserve	573,225	146,818
	2,017,706	**1,662,549**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

NOTE 16: COMMITMENTS AND CONTINGENCIES

The Group leases various premises under non-cancellation 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.

The Group is not aware of any contingent liabilities or contingent assets as at 31 December 2019.

NOTE 17: SHARE BASED PAYMENTS EXPENSE	**31 December 2019 $**
Issue of 44,444 shares to Arthur Kollaras	9,999
Issue of 50,000 shares to Spark Plus	13,000
Issue of 43,478 shares to Justin Ward	10,000
TOTAL SHARE-BASED PAYMENTS RECOGNISED THROUGH P&L	**32,999**
Issue of 2,500,000 Corporate Advisor Options	426,407
TOTAL SHARE-BASED PAYMENTS RECOGNISED THROUGH EQUITY	**426,407**

NOTE 18: RELATED PARTY TRANSACTIONS	**31 December 2019 $**	**30 June 2019 $**
CURRENT		
Loans payable	-	**150,000**

The prior year balance comprises a short term unsecured loan by Dr. Graham Melrose at an interest rate of 5% per annum and was repaid in full during the period.

NOTE 19: EVENTS SUBSEQUENT TO REPORTING PERIOD

1,250,000 Corporate Advisor Options were exercised at $0.312 resulting in the receipt of $390,000.

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

DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMEBER 2019

The Directors of the Company declare that:

1. The condensed consolidated financial statements and notes to the financial statements of the Group are in accordance with the *Corporations Act 2001* and:

    a. comply with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* ; and

    b. give a true and fair view of the consolidated financial position as at 31 December 2019 and of its performance for the half-year ended on that date.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

John Prendergast

Dr John Prendergast
Non-Executive Chairman

27 February 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Recce Pharmaceuticals Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Recce Pharmaceuticals Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 4 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 conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

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

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

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

Neil Smith

Director

Perth, 27 February 2020