

FINANCIAL REPORT

OF

CLARITY PHARMACEUTICALS LIMITED

ABN 36 143 005 341

FOR THE YEAR ENDED

30 JUNE 2019

CLARITY PHARMACEUTICALS LIMITED

ABN 36 143 005 341

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CLARITY PHARMACEUTICALS LIMITED

ABN 36 143 005 341

DIRECTORS' REPORT

The Directors of Clarity Pharmaceuticals Ltd (Clarity Pharmaceuticals) present their report together with the financial statements of the consolidated entity, being Clarity Pharmaceuticals (the Company) and its controlled entities (the Group) for the year ended 30 June 2019.

Director details

The following persons were Directors of Clarity Pharmaceuticals during or since the end of the financial year:

Dr Matthew Harris (resigned 4 October 2019)

Dr Alan Taylor

Ms Rosanne Robinson

Dr Christopher Roberts

Dr Thomas Ramdahl (appointed 24 March 2019)

Dr Gillies O'Bryan-Tear (appointed 3 April 2019)

Principal activities

The principal activities of the Company involved research and development (R&D) of radiopharmaceuticals.

Review of operations and financial results

During the current financial year, the Group progressed its first therapeutic trial SARTATE™ in meningioma, dosing 3 patients, and continued to plan a clinical trial in children with neuroblastoma. It strengthened its development pipeline by developing SARTATE™ as a diagnostic for neuroendocrine tumours (NETs) and continuing its preclinical programs for two other agents with confirmatory studies showing promise for human trials in the coming year. Studies to increase stability of SARTATE have continued, with success, along with studies to increase yield and scaled-up production of Copper-67, an isotope key to Clarity's products.

The Group strengthened its intellectual property position during the financial period, now supporting sixteen patent families and applying for two new provisional patents.

The Group successfully raised \$10 million in capital during the year from existing and new shareholders. Dr Colin Biggin was appointed Acting Chief Executive Officer and Dr Matt Harris moved from Managing Director to Chief Scientific Officer in April 2019. The board was strengthened with the appointments of Dr Thomas Ramdahl (March 2019) and Dr Gillies O'Bryan-Tear (April 2019) as directors. Dr Harris resigned from the board of Directors on 4 October 2019.

The Group completed its Accelerating Commercialisation grant and continued its CRC-Projects grant project, booking income of \$1.16 million from both Grants which supported research and development programs. The operating loss after income tax for the year was \$3,684,332 (2018: Loss \$1,719,112).

Significant changes in the state of affairs

There have been no significant changes during this financial year.

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Events arising since the end of the reporting period:

There are no matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

- the entity's operations in future financial years
- the results of those operations in future financial years; or
- the entity's state of affairs in future financial years.

Likely developments

The operations of the Group in subsequent financial years will continue to focus on the research and development of radiopharmaceuticals.

Unissued shares under option

Unissued ordinary shares of Clarity Pharmaceuticals Limited under option at the date of this report are:

Grant Date	Date of Expiry	Exercise Price	Number under Option
1 October 2014	30 September 2019	\$1.50	20,000
15 November 2014	14 November 2019	\$1.50	200,000
1 March 2015	28 February 2020	\$1.50	200,000
1 July 2015	30 June 2020	\$2.50	20,000
1 October 2015	30 September 2020	\$2.50	20,000
1 January 2016	31 December 2020	\$2.50	20,000
1 July 2016	30 June 2021	\$2.50	90,000
1 January 2017	1 January 2021	\$3.50	400,000
17 January 2017	16 January 2022	\$4.40	10,000
28 April 2017	27 April 2022	\$4.40	40,000
1 July 2017	30 June 2022	\$4.40	100,000
1 November 2017	31 October 2022	\$4.40	10,000
1 January 2017	31 December 2023	\$4.40	20,000
15 February 2017	16 February 2023	\$4.40	60,000
1 July 2018	30 June 2023	\$4.40	130,000
3 December 2018	3 December 2023	\$12.10	10,000
10 December 2018	10 December 2023	\$12.10	10,000
21 March 2019	21 March 2024	\$12.10	40,000
1 July 2019	30 June 2024	\$12.10	115,000
22 July 2019	22 July 2024	\$12.10	5,000

All options expire on their expiry date. These options were issued under various conditions to both employees and non-employees of the Company. These options do not entitle the holder to participate in any share issue of the Company.

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Shares issued during or since the end of the year as a result of exercise

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

Date shares granted	Issue price of shares	Number of shares issued
28 March 2019	\$1.25	60,000
19 June 2019	\$1.25	200,000
27 June 2019	\$1.25	100,000

Environmental legislation

The Company's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia.


Indemnifying officers and auditors

During the financial year the Group paid a premium of \$9,874 (2018: \$5,048) to insure the directors of the Company and the key management personnel of the Company. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to 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 part of those proceedings.

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



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Dr Alan Taylor

Director

Date 14 October 2019

Auditor's Independence Declaration

To the Directors of Clarity Pharmaceuticals Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Clarity Pharmaceuticals Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



L M Worsley
Partner – Audit & Assurance

Sydney, 14 October 2019

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$	2018 \$ Restated – see Note 2
Finance income	5	81,298	19,937
Other Income	5	2,643,489	2,460,689
Income		2,724,787	2,480,626
Depreciation of plant & equipment		(22,017)	(23,832)
Consultancy expenses		(420,513)	(178,485)
Employee expenses		(2,988,064)	(1,952,289)
Legal and professional expenses		(85,591)	(94,497)
Research expenses		(2,111,355)	(1,465,280)
Other expenses		(781,579)	(485,355)
Loss before income tax		(3,684,332)	(1,719,112)
Income tax expense	15	-	-
Loss for the year from continuing operations		(3,684,332)	(1,719,112)
Loss for the year		(3,684,332)	(1,719,112)
Other comprehensive income			
Exchange differences on translating foreign entity		8,671	5,266
Total comprehensive income for the period		(3,675,661)	(1,713,846)

The accompanying notes form part of these financial statements

CLARITY PHARMACEUTICALS LIMITED
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	2019 \$	2018 \$ Restated – see note 2	1 Jul 2017 \$ Restated – see note 2
Assets				
Current				
Cash and cash equivalents	6	3,890,539	1,677,111	3,164,086
Financial assets	7	4,522,652	-	-
Trade receivables	8	-	233,902	169,675
Other receivables	8	1,735,709	812,742	39,250
Prepayments		157,012	-	48,200
Total current assets		10,305,912	2,723,755	3,421,211
Non-current				
Plant & equipment	9	53,285	59,632	78,087
Other financial assets	7	3,107	3,068	3,028
Total non-current assets		56,392	62,700	81,115
Total assets		10,362,304	2,786,455	3,502,326
Liabilities				
Current				
Trade and other payables	10	826,769	456,280	367,280
Deferred income	11	146,489	324,053	-
Provisions	12	158,916	76,710	45,274
Total current liabilities		1,132,174	857,043	412,554
Non-current				
Provisions	12	4,212	-	-
Total non-current liabilities		4,212	-	-
Total liabilities		1,136,386	857,043	412,554
Net assets		9,225,918	1,929,412	3,089,772
Equity				
Share capital	13	18,963,108	8,217,108	8,204,608
Share option reserve	14	2,157,205	1,931,038	1,390,051
Accumulated losses		(11,911,722)	(8,227,390)	(6,508,277)
Foreign Currency Translation Reserve		17,327	8,656	3,390
Total equity		9,225,918	1,929,412	3,089,772

The accompanying notes form part of these financial statements

CLARITY PHARMACEUTICALS LIMITED
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	SHARE OPTION RESERVE	FOREIGN CURRENCY RESERVE	SHARE CAPITAL	ACCUMU- LATED LOSSES	TOTAL
	\$	\$	\$	\$	\$
Balance at 1 July 2017	1,390,051	3,390	8,204,608	(5,909,509)	3,688,540
Restatement of accumulated losses from change in accounting policies	-	-	-	(598,769)	-
Restated balance at 1 July 2017	1,390,051	3,390	8,204,608	(6,508,278)	3,089,771
Loss for the year	-	-	-	(1,704,489)	(1,704,489)
Adjustment to loss for the year due to restatement	-	-	-	(14,623)	(14,623)
Loss for the year (restated)	-	-	-	(1,719,112)	(1,719,112)
Foreign currency translation	-	5,266	-	-	5,266
Total Comprehensive Income	-	5,266	-	(1,719,112)	(1,713,846)
Issue of share capital	-	-	12,500	-	12,500
Employee share-based options	540,987	-	-	-	540,987
Restated balance at 30 June 2018	1,931,038	8,656	8,217,108	(8,227,390)	1,929,412
Loss for the year	-	-	-	(3,684,332)	(3,684,332)
Foreign currency translation	-	8,671	-	-	8,671
Total Comprehensive Income	-	8,671	-	(3,684,332)	(3,675,661)
Transfer to share capital for options exercised	(295,994)	-	295,994	-	-
Ordinary shares issued on exercise of options	-	-	450,000	-	450,000
Issue of share capital	-	-	10,000,006	-	10,000,006
Employee share-based options	522,161	-	-	-	522,161
Balance at 30 June 2019	2,157,205	17,327	18,963,108	(11,911,722)	9,225,918

The accompanying notes form part of these financial statements

CLARITY PHARMACEUTICALS LIMITED
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STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 \$	2018 \$
Cash Flows from Operating Activities			
Interest received		50,701	19,937
Research and development incentive received		743,187	682,475
Grant income		1,158,002	1,330,975
Payments to suppliers and employees		(5,658,817)	(3,532,751)
Interest paid		-	-
Net cash (used in) operating activities	18	(3,706,926)	(1,499,364)
Cash Flows from Investing Activities			
Purchase of plant & equipment		(15,670)	(5,377)
Net cash (used in) investing activities		(15,670)	(5,377)
Cash Flows from Financing Activities			
Proceeds from issue of share capital		10,000,006	12,500
Transfer to Financial assets		(4,522,652)	-
Exercise of Options		450,000	-
Costs of fund raising		-	-
Net cash provided by financing activities		5,927,354	12,500
Net (decrease)/increase in cash held		2,204,757	(1,492,241)
Cash at the beginning of the financial year		1,677,111	3,164,086
Effect of exchange rate changes on cash and cash equivalents		8,671	5,266
Closing cash at the end of the financial year	6	3,890,539	1,677,111

The accompanying notes form part of these financial statements

CLARITY PHARMACEUTICALS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. General information and statement of compliance

The financial report includes the consolidated financial statements and notes of Clarity Pharmaceuticals Ltd and Controlled Entities (Consolidated Group).

The Group has elected to adopt the Australian Accounting Standards - Reduced Disclosure Requirements (established by AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements).

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the Corporations Act 2001. They have been prepared under the assumption that the Group operates on a going concern basis. Clarity Pharmaceuticals Limited is a for-profit entity for the purpose of preparing the financial statements.

The consolidated financial statements for the year ended 30 June 2019 were approved and authorised for issue by the Board of Directors on 14 October 2019.

Going Concern

The directors believe the Group will be able to continue as a going concern. The ability of the Group to continue as a going concern and be able to pay its debts as and when they fall due is contingent upon periodic capital raising and Grant funding to support research and development activities.

Notwithstanding that the Group has access to cash and financial assets of \$8.4 million at 30 June 2019 the Directors consider that it will need to raise additional capital in the next twelve months in order to pursue its strategic plan and objectives.

At the date of this report the directors believe there are reasonable grounds that the Group will be able to raise enough capital when required. The results of such capital raising combined with cash reserves will provide sufficient funding to meet all of its foreseeable expenditure commitments and pay its debts as and when they fall due.

The Group has a history of losses. Accordingly, if it is unable to raise adequate capital then it may be unable to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2. Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's previous annual consolidated financial statements for the year ended 30 June 2018, except as described below.

Patent Expenses

The Group has re-assessed the accounting treatment of Patent Expenses and determined that it is more appropriate to expense all patent costs as incurred. Previously patents obtained by the Group were stated at cost less accumulated amortisation and impairment losses. Capitalised costs principally related to the costs of legal counsel in obtaining the patent.

In the Group's judgement expensing these costs is considered more prudent and appropriate for the current stage of product development.

This change in accounting for patent expenses impacts on the Group's financials as a net (decrease) to Non-Current Assets – Intangible Assets and an increase in expenses recognised in the profit or loss. The Group has restated each of the affected financial statement line items for the prior year, as detailed below:

	<u>Jun-18</u>	<u>Adjustment</u>	<u>Restated</u> <u>Jun 18</u>
	\$	\$	\$
Impact on Statement of Financial Position			
Non-Current Assets			
Intangible Assets	613,392	(613,392)	-
Total Non-current Assets	676,092	(613,392)	62,700
<hr/>			
Equity			
Accumulated Losses	(7,613,998)	(613,392)	(8,227,390)
Total Equity	2,542,804	(613,392)	1,929,412
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2. Changes in accounting policies continued

Patent Expenses continued

	<u>Jun-18</u>	<u>Adjustment</u>	<u>Restated Jun 18</u>
	\$	\$	\$
Impact on Consolidated statement of profit or loss and other comprehensive income			
Amortisation of intangible assets	(106,321)	106,321	-
Other expenses	(364,411)	(120,944)	(485,355)
Total comprehensive income for the period	(1,704,489)	(14,623)	(1,719,112)

	<u>1 Jul 17</u>	<u>Adjustment</u>	<u>Restated 1 Jul 17</u>
	\$	\$	\$
Impact on Statement of Financial Position			
Non-Current Assets			
Intangible Assets	598,768	(598,768)	-
Total Non-current Assets	679,883	(598,768)	81,115
Equity			
Accumulated Losses	(5,909,509)	(598,768)	(6,508,277)
Total Equity	3,688,540	(598,768)	3,089,772

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2. Changes in accounting policies continued

New Accounting Standards

AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* became mandatorily effective on 1 January 2018. AASB 16 *Leases* has been published but is not mandatory for the reporting period. The nature and effect of changes arising from these standards are summarised in the section below.

AASB 9 Financial Instruments

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement requirements*. It changes the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets. The Group's financial assets include trade and other receivables. The classification of trade and other receivables changed from loans and receivables to amortised cost. No adjustment was required as a result of this change.

The standard does not have a material impact on the transactions and balances recognised in these financial statements, however the accounting policy is listed below for completeness.

Financial Instruments

Recognition and derecognition: Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets: Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Subsequent measurement of financial assets: For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- financial assets at amortised cost
- financial assets at fair value through profit or loss (FVTPL)

Classifications are determined by both:

- The entity's business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Financial assets at amortised cost: Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2. Changes in accounting policies continued

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL): Financial assets that are held within a business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

Impairment of financial assets: AASB 9's new impairment model uses more forward-looking information to recognise expected credit losses – the 'expected credit losses (ECL) model'. The application of the new impairment model depends on whether there has been a significant increase in credit risk.

Trade and other receivables: The Group makes use of a simplified approach in accounting for trade and other receivables.

All financial assets, except for those at fair value through profit or loss (FVTPL), are subject to review for impairment at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Classification and measurement of financial liabilities: As the accounting for financial liabilities remains largely unchanged from AASB 139, the Group's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include trade and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* replaces AASB 118 and covers contracts for goods and services. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards.

The implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognised during the year. No adjustments were required to account for the impact of AASB 15 on initial adoption.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2. Changes in accounting policies continued

AASB 16 Leases

AASB 16 *Leases* replaces IAS 117 *Leases*. AASB 16 became mandatorily effective on 1 January 2019 and applies to the group from 1 July 2019. The new standard introduces a single lessee accounting model that no longer requires leases to be classified as operating or financing. Other major changes include: the recognition of a right-to-use asset and liability; depreciation of right-to-use assets in line with AASB 116 *Property Plant and Equipment*; variable lease payments that depend on an index or rate are included in the initial measurement of lease liability; option for lessee to not separate non-lease components and account for all components as a lease, and additional disclosure requirements.

The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on preliminary assessment, as the Group's occupancy lease is a month-by-month lease, 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.

3. Summary of accounting policies

(a) Overall considerations

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below. Clarity Pharmaceuticals Limited is an Australian Company located at the Australian Technology Park in Eveleigh NSW, Australia. The registered office address is Suite 212A/2-4 Cornwallis St, Eveleigh NSW 2015.

(b) Basis of consolidation

The Group financial statements consolidate those of the Parent Company and its subsidiaries as of 30 June 2019. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and can affect those returns through its power over the subsidiary. The only subsidiary has a reporting date of 31 December 2018. All transactions and balances between Group companies are eliminated on consolidation as at 30 June 2019, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

(c) Functional currency translation

The consolidated financial statements are presented in Australian dollars (\$AUD), which is also the functional currency of the Parent Company. Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

3. Summary of accounting policies continued

Non-monetary items are not translated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined. In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the \$AUD are translated into \$AUD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period. On consolidation, assets and liabilities have been translated into \$AUD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into \$AUD at the closing rate. Income and expenses have been translated into \$AUD at the average rate over the reporting period. Exchange differences are charged and/or credited to other comprehensive income and recognised in the currency translation reserve in equity.

(d) Other income

The following recognition criteria must be met before other income is recognised.

Grant Income - Grant Income is recognised when the expenditure related to the grant is recognised. Grant monies that have been received or are receivable but have not yet been expended at balance date are carried forward as unexpended grants.

Finance Income – Finance Income relates to interest from bank and term deposits and is recognised on an accruals basis.

Research & Development Incentive - Research & Development incentive is recognised as income when a reliable estimate can be made of the amounts receivable. The Research & Development incentive for the year ending 30 June 2019 has been recognised as income for said year however it will not be received until after 30 June 2019.

(e) Income tax

The charge for current income tax expense is based on the profit for the period adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the statement of financial position date.

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of the assets and liability and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

3. Summary of accounting policies continued

(f) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

Where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO 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 ATO are classified as operating cash flows.

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

(g) Trade and other receivables

Trade receivables, which generally have a 30 day term, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term deposits with banks or financial institutions, with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which it belongs. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Profit or Loss.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

3. Summary of accounting policies continued

(j) Plant and equipment

Plant and equipment are measured at cost less depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

(k) Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the Group commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>
Plant and Equipment	30%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(l) Operating leases

Operating lease payments are charged to the Statement of Profit or Loss in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased asset.

(m) Financial instruments Recognition

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

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3. Summary of accounting policies continued

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine fair value for all unlisted securities, including recent arm's length transactions, references to similar instruments and option pricing models.

Impairment

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaced IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

(n) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

The fair value of options granted are valued under AASB 2 (Share-based Payment) using the Black Scholes valuation method. This is a non-cash expense item.

(o) Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimate – Research and Development Tax Incentive – The Group assesses its Australian federal Government research and Development Tax Incentive receivable at each reporting date, by tracking its eligible research and development expenditure, applying the Research and Development Tax Incentive refundable tax offset rate and applying applicable clawback provisions to its related grant expenditure.

Key estimates - Share Based Payments - The Group measures cost of equity settled share-based payments at Future Value (FV) at grant date using the Black Scholes valuation methodology considering the terms & conditions upon which the instruments were granted. Inputs into the Black Scholes valuation model require a level of estimation and judgement. As the Group is not trading publicly, judgement is also required to determine the share price input for the Black Scholes valuation.

Key judgement – Recognition of deferred tax assets - The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. This includes an assessment of the amount and likelihood of the Group's ability to successfully claim the R&D Tax Incentive cash offset.

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NOTES TO THE FINANCIAL STATEMENTS
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4. Interests in subsidiaries

Set out below details of the subsidiary held directly by the Group:

Name of the Subsidiary	Country of Incorporation and principal place of business	Principal Activity	Proportion of ownership interests held by the group	
			30 Jun 19	30 Jun 18
Clarity Pharmaceuticals Europe SA	Belgium	Scientific Research & Development	100%	100%

5. Other Income

The Group has derived no commercial revenue during the year. Other Income comprises:

	2019	2018
	\$	\$
Finance income	81,298	19,937
Grant income		
Department of Industry, Innovation & Science	1,341,531	921,884
Austrade		50,000
Research and development incentive	1,301,958	1,488,805
	<u>2,724,787</u>	<u>2,480,626</u>

6. Cash and cash equivalents

	2019	2018
	\$	\$
Cash and cash equivalents consist of the following:		
Cash at bank - Australian Dollars	3,630,991	1,373,612
Cash at bank - Euro	259,548	303,499
	<u>3,890,539</u>	<u>1,677,111</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

7. Other financial assets

	2019	2018
	\$	\$
Current		
Term deposits	4,522,652	-
	4,522,652	-
Non-current		
Security deposit	3,107	3,068
	3,107	3,068

This security deposit represents one month's rental fees for the business premises. The landlord may deduct from the security deposit any amount owing to them in connection with the rental agreement. The security deposit will be returned to Clarity Pharmaceuticals within one month after the later of the termination of the agreement and Clarity Pharmaceuticals complying to the reasonable satisfaction of the landlord with all its obligations under the agreement.

8. Other receivables

	2019	2018
	\$	\$
Consumption taxes receivable	62,956	-
Research & Development Incentive receivable	1,365,209	806,330
Interest Receivable	30,558	-
Other receivables	276,986	240,314
Other Receivables	1,735,709	1,046,644

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value. All the Group's trade and other receivables have been reviewed for indicators of impairment.

9. Plant & equipment

	2019	2018
	\$	\$
Equipment	118,020	102,350
Less Accumulated Depreciation	(64,735)	(42,718)
	53,285	59,632
Balance as at 1 July	59,632	78,087
Additions	15,670	5,377
Depreciation	(22,017)	(23,832)
Balance as at 30 June	53,285	59,632

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NOTES TO THE FINANCIAL STATEMENTS
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10. Trade & other payables

Trade and other payables recognised consist of the following:

Current:

Trade creditors	528,412	191,226
Sundry creditors	175,714	158,628
Payroll liabilities	61,488	65,891
Consumption taxes payable	-	6,463
Superannuation payable	61,155	34,072
Total trade and other payables	826,769	456,280

All amounts are short-term. The carrying values of trade payables and short-term bank overdrafts are a reasonable approximation of fair value.

11. Deferred Income

Current:

Deferred Income – unexpended grants	146,489	324,053
	146,489	324,053

Deferred income arise from unexpended amounts under grants received by Clarity Pharmaceuticals Ltd (from the Department of Industry, Innovation and Science) and Clarity Pharmaceuticals Europe SA (from the Wallonia State Government, Belgium) supporting the Group's research and development programs.

12. Provisions

	2019	2018
	\$	\$
Current:		
Annual leave liability	158,916	76,710
Non-Current:		
Long Service Leave liability	4,212	-

The current liability represents The Group's obligations to which employees have a current legal entitlement. It arises from accrued annual leave entitlement at reporting date. The non-current liability represents obligations to which employees will have a legal entitlement upon completion of a requisite service period, more than 12 months beyond the end of the year.

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NOTES TO THE FINANCIAL STATEMENTS
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13. Equity

Ordinary shares		
Issued and fully paid	18,963,108	8,217,108
Total contributed equity at 30 June	18,963,108	8,217,108

Movement in ordinary shares on issue	Number	Number
As at 1 July	5,719,283	5,709,283
Issue of additional shares during the period	1,396,270	10,000
As at 30 June	7,115,553	5,719,283

Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. The Group does not have a limited amount of authorised capital and issued shares do not have a par value.

Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are periodically adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

No dividends were paid in the current financial period.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

14. Share option reserve

	2019	2018
	\$	\$
Balance as at 1 July	1,931,038	1,390,051
Share options expensed	522,161	540,987
Options Exercised	(295,994)	-
Balance as at 30 June	<u>2,157,206</u>	<u>1,931,038</u>

The share option reserve represents the cumulative total expense attributed to vested options and expense to date for options that have not yet vested - as the expense is spread over the vesting period. The expense is determined using a Black Scholes valuation of the options.

15. Income tax

Income tax is payable on that proportion of the income less expenses. The aggregate amount of income tax attributable to the financial year differs from the amount prima facie payable on the operating profit. The difference is reconciled as follows:

	2019	2018
	\$	\$
Result before income tax	<u>(3,684,332)</u>	<u>(1,704,489)</u>
Prima facie tax payable on (loss) before income tax at 27.5%	(1,013,191)	(468,734)
Add: Tax effect of:		
Non-deductible research and development expense subject to R&D tax incentive	872,625	509,749
Non-deductible share-based payment	143,594	148,771
Less: Tax effect of:		
Research & Development Incentive	(1,348,416)	(409,421)
Other differences	32,265	43,718
Tax effect of losses not brought to account	<u>1,313,123</u>	<u>175,917</u>
Income tax benefit attributable to loss before income tax	<u>-</u>	<u>-</u>
Unused tax losses for which no tax loss has been recognised as a deferred tax asset:		
Tax effect:		
Clarity Pharmaceuticals Ltd (27.5%)	1,050,620	692,689
Clarity Pharmaceuticals Europe SA (20%)	<u>22,158</u>	<u>13,199</u>

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NOTES TO THE FINANCIAL STATEMENTS
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15. Income tax continued

The benefit from tax losses will only be obtained if:

- (i) Clarity Pharmaceuticals Limited derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) No changes in the tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

16. Operating lease

The Group leases an office under an operating lease. The future minimum lease payments are as follows:

	2019	2018
	\$	\$
Not later than one year	3,107	3,068
Later than one year but less than five years	-	-
Later than five years	-	-
	3,107	3,068

Lease expense during the period amounted to \$36,899 (2018: \$36,292) representing the minimum lease payments. The rental lease is on a month-to-month arrangement, with one months' notice required before termination of lease.

17. Employee remuneration

(a) Employee benefits expense

Expenses recognised for employee benefits are analysed below:

	2019	2018
	\$	\$
Wages, salaries	2,082,458	1,226,550
Superannuation costs	169,587	115,976
Share-based payments	522,161	540,987
Other employee expenses	213,858	68,776
Employee benefits expense	2,988,064	1,952,289

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17. Employee remuneration continued

(b) Share-based employee remuneration

As at 30 June 2019, the Group maintained a share-based payment scheme for employee remuneration. This program is settled in equity.

Options under this program will vest if the participant remains employed for the agreed vesting period. Upon vesting, each option allows the holder to purchase one ordinary share at a discount of the market price determined at grant date. The fair value of options granted were determined using the Black Scholes valuation method. In total \$522,161 (2018 - \$540,987) of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in profit or loss and credited to share option reserve.

	No. of Options	Exercise Price (\$)	Weighted Average Exercise Price (\$)
Outstanding at 30 June 2017	1,390,000		2.22
Granted - 1 July 2017	100,000	4.40	2.36
Exercised - 30 July 2017	(10,000)	1.25	2.37
Granted - 1 November 2017	10,000	4.40	2.39
Granted - 1 January 2018	20,000	4.40	2.41
Granted - 15 February 2018	60,000	4.40	2.49
Outstanding at 30 June 2018	1,570,000		2.49
Granted - 1 July 2018	130,000	4.40	2.63
Granted - 3 December 2018	10,000	12.10	2.69
Granted - 10 December 2018	10,000	12.10	2.74
Granted - 21 March 2018	40,000	12.10	2.96
Exercised - 29 March 2019	(60,000)	1.25	3.02
Exercised - 19 June 2019	(200,000)	1.25	3.25
Exercised - 27 June 2019	(100,000)	1.25	3.40
Outstanding at 30 June 2019	1,400,000		3.40

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

17. Employee remuneration continued

The weighted average share price of option exercised at the dates of exercise were as follows:

29 March 2019	\$ 2.61
19 June 2019	\$ 2.69
27 June 2019	\$ 2.64

For options granted during the year, the valuation model inputs used to determine the fair value at the grant date are as follows:

Grant Date	01-Jul-18	03-Dec-18	10-Dec-18	21-Mar-19
Share Price (\$)	3.50	9.65	9.65	9.65
Exercise Price (\$)	4.40	12.10	12.10	12.10
Volatility Rate	92.69%	108.50%	108.50%	105.90%
Options Life	5 years	5 years	5 years	5 years
Risk-free interest rate	2.28%	2.08%	2.08%	1.42%

The volatility rate was determined by reference to the share pricing volatility of six comparable listed companies in Australia and used the median number as the volatility rate.

18. Cash flow statement reconciliation

	2019	2018
	\$	\$
Reconciliation of net loss after tax to net cash flows from operations		
Loss from ordinary activities after Income Tax	(3,684,332)	(1,719,112)
Non-Cash items in Total Comprehensive Income:		
Depreciation expense	22,017	23,832
Share option expense	522,161	540,987
Decrease/(Increase) in Trade and Other Receivables	(689,065)	(837,719)
(Increase)/Decrease in Prepayments	(157,012)	48,200
(Increase)/Decrease in Other Financial Assets	(39)	(40)
Increase/(Decrease) in Trade and Other Payables	370,489	89,000
Increase/(Decrease) in Deferred Revenue	(177,564)	324,053
Increase in Provisions	86,418	31,436
Cash Flow from Operations	(3,706,927)	(1,378,419)

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NOTES TO THE FINANCIAL STATEMENTS
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19. Financial instruments

(a) Assets

	2019	2018
	\$	\$
Current assets		
Financial assets:		
Cash at bank	3,890,539	1,677,111
Term deposits	4,522,652	
Trade debtors	-	233,902
Other receivables	1,735,709	812,742
Total financial assets	10,148,900	2,723,755
Non-current assets		
Financial assets:		
Other financial assets	3,107	3,068
Total financial assets	3,107	3,068
Financial assets maturity analysis		
Less than 30 days	10,148,900	2,723,755
31 - 60 days	-	-
More than 90 days	3,107	3,068
Balance at 30 June	10,152,007	2,726,823

Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value approximates their fair value. These receivables are due and expected to be received in 0 - 30 days.

The Group expects equity raises and operating activities to generate sufficient cash flows for any future cash commitments, and also holds sufficient financial assets that are readily available to meet any liquidity needs. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the entity's policy to transfer (on-sell) receivables to special purpose entities.

Allowance for impairment loss

The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. As at 30 June 2019, the ageing analysis of trade receivables shows the majority of trade receivables are in the 0 - 30 day category.

The expected loss rates are based on the payment profile for sales over the 48 months before 30 June 2019 as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. Given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

19. Financial instruments continued

(b) Current liabilities

	2019	2018
	\$	\$
Financial liabilities:		
Trade & other payables	704,126	349,853
Total financial assets	704,126	349,853
Financial liabilities maturity analysis		
Less than 1 year	704,126	349,853
Balance at 30 June	704,126	349,853

Fair Value and Credit Risk

Carrying value approximates fair value due to the short-term nature of these payables. These payables are due and expected to be paid in in less than 12 months.

(c) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

(d) Price risk

Clarity Pharmaceuticals Limited is not exposed to any price risk from its operations of radiopharmaceuticals.

(e) Foreign currency risk

Clarity Pharmaceuticals Limited is exposed to foreign currency risk via several service & research contracts denominated in US Dollars (USD), Singapore Dollars (SGD) and Euro (EUR). The Group accepts the foreign currency risk attached to such contracts, however non-AUD cash flow exposures are monitored and the exposure to foreign exchange movement is factored into projected costs. No foreign exchange hedging takes place.

(f) Liquidity risk

Clarity Pharmaceuticals Limited manages liquidity risk by monitoring cash flows and ensuring that adequate cash reserves are maintained.

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NOTES TO THE FINANCIAL STATEMENTS
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19. Financial instruments continued

(g) Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Floating Interest Rate 2019 \$	Greater than 1 Year < 5 Years 2019 \$	> 5 Years 2019 \$	Non- interest bearing 2019 \$
Financial assets:				
Cash and cash equivalents	8,413,191	-	-	-
Security deposits	3,107	-	-	-
Receivables	-	-	-	1,735,709
Total financial assets	8,416,298	-	-	1,735,709
Financial liabilities:				
Trade and other payables	-	-	-	704,126
Total financial liabilities	-	-	-	704,126

20. Related party transactions

Names and positions held of key management personnel in office at any time during the financial year are:

Dr Alan Taylor - Executive Chairman

Dr Christopher Roberts - Non-Executive Director

Ms Rosanne Robinson - Non-Executive Director

Dr Thomas Ramdahl - Non-Executive Director from 24 March 2019

Dr Gillies O'Bryan-Tear - Non-Executive Director from 3 April 2019

Dr Colin Biggin – Acting Chief Executive Officer from 1 April 2019

Dr Matt Harris - Managing Director to 3 April 2019. Chief Scientific Officer from 3 April 2019

Transactions with key management personnel

Dr Taylor is employed by the Company as Executive Chairman. During the financial period \$21,806 (2018 - \$6,443) was paid to Dr Taylor as reimbursement for expenses incurred on behalf of the Group. These were arms-length transactions at normal market prices and on normal commercial terms. As at 30 June 2019 there is an amount owing of \$12,824 (2018 - \$6,412) from Dr Taylor. At the date the Financial Statements were signed this balance was nil after \$6,412 was waived by the board and \$6,412 repaid by Dr Taylor.

Dr O'Bryan-Tear provided consulting services to The Group. During the year O'Bryan-Tear Consulting Ltd, a company controlled by him was paid \$42,632 (2018 – nil) in consulting fees. The fees were determined on an arms-length basis at normal market prices and on normal commercial terms.

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20. Related party transactions continued

Dr Ramdahl provides consulting services to The Group. During the year Cetium, a company controlled by him was paid \$15,000 (2018 nil) in consulting fees. The fees were determined on an arms-length basis at normal market prices and on normal commercial terms.

Dr Harris is employed by the Company as Chief Scientific Officer (previously Managing Director until 3 April 2019). During the financial period \$18,948 (2018 - \$1,697) was paid to Dr Harris as reimbursement for expenses incurred on behalf of the Group. These are arms-length transactions at normal market prices and on normal commercial terms.

	2019	2018
	\$	\$
Short-term employee benefits	990,354	547,945
Post-employment benefits	67,411	52,055
Share-based payments	169,760	221,484
Total key management personnel remuneration	1,227,525	821,484
	Number	Number
Dr Alan Taylor		
Number of shares held	430,000	230,000
Number of options held	400,000	600,000
Dr Christopher Roberts		
Number of shares held	845,564	775,324
Number of options held	50,000	50,000
Ms Rosanne Robinson		
Number of shares held	-	-
Number of options held	-	-
Dr Thomas Ramdahl		
Number of shares held	-	-
Number of options held	20,000	-
Dr Gillies O'Bryan-Tear		
Number of shares held	-	-
Number of options held	20,000	-
Dr Colin Biggin		
Number of shares held	14,286	14,286
Number of options held	90,000	40,000
Dr Matthew Harris		
Number of shares held	411,931	323,931
Number of options held	400,000	500,000

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21. Auditors remuneration

	2019	2018
	\$	\$
Audit of financial report	42,000	36,000

22. Commitment & contingencies

The Company has intellectual property licences with University of Melbourne, Australian Nuclear Science and Technology Organisation and The Baker Heart and Diabetes Institute, representing contingent liabilities totalling \$3,150,000 (2018 - \$5,500,000). These contingent liabilities are dependent upon the high-risk nature of the clinical research being successful. It is anticipated that milestones will be completed in the year ending 30 June 2020 which will result in payments to licensors totalling \$125,000 (2018 -\$125,000).

23. Parent entity information

Information relating to Clarity Pharmaceuticals Ltd (the Parent Entity):

	2019	2018
	\$	\$
Statement of financial position		
Current assets	9,986,516	2,450,171
Total assets	10,164,367	3,207,549
Current liabilities	(938,449)	(664,744)
Total liabilities	(938,449)	(664,744)
Net assets	9,225,330	2,542,805
Issued capital	18,963,108	8,217,108
Share option reserve	2,157,205	1,931,038
Retained losses	(11,894,394)	(7,605,341)
Total equity	9,225,330	2,542,805
Statement of profit or loss and other comprehensive income		
Loss for the year	3,718,941	2,304,761
Total comprehensive income	(3,718,941)	(2,304,761)

The Parent Entity has not entered a deed of cross guarantee nor are there any contingent liabilities at the year-end.

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24. Post-reporting date events

In July 2019 120,000 options were issued to employees.

The Group entered into a new lease agreement with the same landlord for a larger office space on the same month-to-month lease terms. Monthly rent increased from \$3,068 to \$11,380.

Dr Matt Harris resigned as a director of the Company on 4 October 2019.

There are no other matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect:

- (i) the operation of the Group;
- (ii) the results of those operations; or
- (iii) the state of affairs of the Group;

in future financial years.

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Directors' Declaration

CLARITY PHARMACEUTICALS LIMITED

ABN 36 143 005 341

In the opinion of the Directors of Clarity Pharmaceuticals Ltd:

- a) The consolidated financial statements and notes of Clarity Pharmaceuticals Ltd are in accordance with the Corporations Act 2001, including
 - I. Giving a true and fair view of its financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
 - II. Complying with Australian Accounting Standards - Reduced Disclosure Requirements (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b) There are reasonable grounds to believe that Clarity Pharmaceuticals Ltd will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



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Director
Dr Alan Taylor

Dated this 14th day of October 2019

Independent Auditor's Report

To the Members of Clarity Pharmaceuticals Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Clarity Pharmaceuticals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, 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:

- a giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards – Reduced Disclosure Requirements 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 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 1 in the financial statements, which indicates that the Group has cash and financial assets of \$8.4 million as at 30 June 2019 and requires additional capital in the next twelve months to pursue its strategic plan and objectives. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 – Reduced Disclosure Requirements and the *Corporations Act 2001*. The Directors' responsibility also includes 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 Group's ability 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 have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.



Grant Thornton Audit Pty Limited
Chartered Accountants



L M Worsley
Partner – Audit & Assurance

Sydney, 14 October 2019