

FINANCIAL REPORT

OF

CLARITY PHARMACEUTICALS LIMITED

ABN 36 143 005 341

FOR THE YEAR ENDED

30 JUNE 2020

CLARITY PHARMACEUTICALS LIMITED

ABN 36 143 005 341

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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 entity (the Group) for the year ended 30 June 2020.

Director details

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

Dr Alan Taylor

Dr Colin Biggin (appointed 29 October 2019)

Ms Rosanne Robinson

Dr Christopher Roberts

Dr Thomas Ramdahl

Dr Gillies O'Bryan-Tear

Dr Matthew Harris (resigned 4 October 2019)

Principal activities

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

Review of operations and financial results

The year been pivotal for Clarity, culminating with several major milestones being reported in recent months. The company has officially activated the Memorial Sloan Kettering Cancer Center (MSKCC) trial of SARTATE™, a theranostic (diagnostic and therapy) trial of children with neuroblastoma. In August 2020 we announced the first patient has been treated in our C-BOBCAT (Copper-64 BOmbesin in Breast Cancer Trial) clinical trial at St Vincent's Hospital Sydney with Principal Investigator A/Prof Louise Emmett, Director of Theranostics and Nuclear Medicine. A third product, SAR-bisPSMA, has shown very promising results in pre-clinical trials with plans to progress to a clinical study during the current financial year.

Several of these milestones have been achieved since February 2020 when COVID-19 began to present as a major global health and economic emergency. Whilst the Group has experienced some disruption with its supply chains and clinical operations, it has still been able to progress its operations actively on all fronts.

The above developments build off a year in which the Group has established a strong and skilled team capable of delivering on the various workstreams necessary to develop and actively progress a successful clinical programme. Colin Biggin was appointed Managing Director in October 2019. The following executive positions were also filled during the year – Chief Financial Officer, Director – Regulatory Affairs and Director of Operations. The Group's scientific advisory capacity has also been strengthened with key appointments and resourcing.

The Group is progressing a \$25 million capital raise with \$4.1 million allotted in June following the initial offer to current shareholders and a further \$10.2 million allotted in September 2020.

In expanding activities to progress our programmes the Group has recorded an increased operating loss after income tax for the year of \$6,953,263 (2019: Loss \$3,675,661).

Significant changes in the state of affairs

There have been no significant changes during this financial year.

Events arising since the end of the reporting period:

The Group is aware that, due to COVID-19, certain operational activities may be disrupted as a result of community lockdowns or other consequences of the pandemic. At the date of this report the Group is not aware of any specific effects from the COVID-19 pandemic which have or may significantly affect its operations, results or state of affairs in future financial years. There are no other 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 set out on the following table:

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DIRECTORS' REPORT

Grant Date	Date of Expiry	Exercise Price	Number under Option
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	53,334
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	105,000
22 July 2019	22 July 2024	\$12.10	5,000
1 October 2019	1 October 2024	\$12.10	50,000
21 October 2019	21 October 2024	\$12.10	5,000
1 December 2019	1 December 2024	\$12.10	10,000
1 March 2020	29 February 2024	\$18.75	10,000
2 March 2020	2 March 2025	\$18.75	20,000
1 June 2020	1 June 2025	\$18.75	5,000
1 July 2020	1 July 2025	\$18.75	183,000
			<u>1,346,334</u>

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.

Shares issued during or since the end of the year because of exercise

During or since the end of the financial year, the Company issued ordinary shares because 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
4 November 2019	\$1.50	200,000
28 February 2020	\$1.50	200,000
		<u>400,000</u>

DIRECTORS' REPORT

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 \$14,659 (2019: \$9,874) 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.



.....
Dr Alan Taylor

Chairman

Date: 30th September 2020

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 2020, 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



R J Isbell
Partner – Audit & Assurance

Sydney, 30 September 2020

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

		2020	2019
		\$	\$
	Notes		
Finance income	5	59,416	81,298
Other income	5	2,838,812	2,643,489
Income		2,898,228	2,724,787
Depreciation		(16,999)	(22,017)
Patents and related costs		(497,322)	(372,227)
Employment	16	(3,983,526)	(2,988,064)
Corporate and administration		(1,320,055)	(489,494)
Research and development		(4,028,200)	(2,537,108)
Finance costs		(5,989)	(208)
Loss before income tax		(6,953,863)	(3,684,332)
Income tax expense	15	-	-
Loss for the year from continuing operations		(6,953,863)	(3,684,332)
Loss for the year		(6,953,863)	(3,684,332)
Other comprehensive income			
Exchange differences on translating foreign entity		600	8,671
Total comprehensive income for the period		(6,953,263)	(3,675,661)

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 2020

	Notes	2020 \$	2019 \$
Assets			
Current			
Cash and cash equivalents	6	5,265,490	3,890,539
Financial assets	7	1,000,000	4,522,652
Other receivables	8	2,659,633	1,735,709
Prepayments		128,987	157,012
Total current assets		9,054,110	10,305,912
Non-current			
Plant & equipment	9	49,521	53,285
Other financial assets	7	11,380	3,107
Total non-current assets		60,901	56,392
Total assets		9,115,011	10,362,304
Liabilities			
Current			
Trade and other payables	10	588,960	826,769
Deferred income	11	108,687	146,489
Provisions	12	249,297	158,916
Total current liabilities		946,944	1,132,174
Non-current			
Provisions	12	9,150	4,212
Total non-current liabilities		9,150	4,212
Total liabilities		956,094	1,136,386
Net assets		8,158,917	9,225,918
Equity			
Share capital	13	23,933,000	18,963,108
Share option reserve	14	3,073,575	2,157,205
Accumulated losses		(18,865,585)	(11,911,722)
Foreign currency translation reserve		17,927	17,327
Total equity		8,158,917	9,225,918

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 2020

	SHARE OPTION RESERVE	FOREIGN CURRENCY RESERVE	SHARE CAPITAL	ACCUMU- LATED LOSSES	TOTAL
	\$	\$	\$	\$	\$
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
Loss for the year	-	-	-	(6,953,863)	(6,953,863)
Foreign currency translation	-	600	-	-	600
Total Comprehensive Income	-	600	-	(6,953,863)	(6,953,263)
Transfer to share capital for options exercised	(272,627)	-	272,627	-	-
Ordinary shares issued on exercise of options	-	-	600,000	-	600,000
Issue of share capital	-	-	4,097,265	-	4,097,265
Employee share-based options	1,188,997	-	-	-	1,188,997
Balance at 30 June 2020	3,073,575	17,927	23,933,000	(18,865,585)	8,158,917

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 2020

	Note	2020 \$	2019 \$
Cash Flows from Operating Activities			
Other income		50,000	-
Interest received		80,730	50,701
Research and development incentive received		1,354,930	743,187
Grant income		526,500	1,158,002
Payments to suppliers and employees		(8,836,468)	(5,658,817)
Interest paid		(5,989)	-
Net cash (used in) operating activities	17	(6,830,297)	(3,706,927)
Cash Flows from Investing Activities			
Purchase of plant & equipment		(14,496)	(15,670)
Net cash (used in) investing activities		(14,496)	(15,670)
Cash Flows from Financing Activities			
Proceeds from issue of share capital		4,097,265	10,000,006
Cash held pending share placement		7,500	-
Transfer from/(to) financial assets		3,514,379	(4,522,652)
Exercise of options		600,000	450,000
Net cash provided by financing activities		8,219,144	5,927,354
Net increase in cash held		1,374,351	2,204,757
Cash at the beginning of the financial year		3,890,539	1,677,111
Effect of exchange rate changes on cash and cash equivalents		600	8,671
Closing cash at the end of the financial year	6	5,265,490	3,890,539

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1. General information and statement of compliance

The financial report includes the consolidated financial statements and notes of Clarity Pharmaceuticals Ltd and Controlled Entity (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 2020 were approved and authorised for issue by the Board of Directors on 30 September 2020.

Going Concern

The directors believe the Group will be able to continue as a going concern. The Group has a history of losses. 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.

The Group had cash and financial assets of \$16.5 million at 29 September 2020 following a share placement of \$4.1 million on 18 June and \$10.2 million on 29 September. The placements are part of a \$25 million capital raise which continues to be offered.

At the date of this report the directors believe that the cash and financial assets on hand will provide sufficient working capital for the Group to meet its foreseeable expenditure commitments and pay its debts as and when they fall due for the next 12 months. Furthermore, the directors believe the ongoing \$25 million capital raise will be successfully completed.

In forming this view, the directors have considered the impact of the COVID-19 pandemic. A review of the Group's working capital needs indicates that the pandemic has not significantly altered the cash runway. While the pandemic has resulted in a longer timeframe than planned being required to progress the capital raise, the directors remain confident that there is sufficient investor interest in the Group and that capital market conditions generally, and in life sciences specifically, are strong enough to successfully complete the capital raise.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

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 2019, except as described below.

New Accounting Standards

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 impact of this new standard has been considered and it has been determined that there is no material impact on the financial statements. This conclusion is based on an assessment of the Group's occupancy lease, which is on a month-by-month lease agreement, and in consideration of the findings of the IFRS Interpretations Committee which requires assessment of expectations of usage beyond the terms of the lease.

Other Standards and amendments that are effective for the first time in 2020 are:

- IFRIC 23 Uncertainty over Income Tax Treatments
- IFRS 9 Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- IAS 28 Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Annual Improvements to IFRS 2015-2017 Cycle
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

These Standards and amendments do not have a significant impact on these financial statements and therefore no disclosures have been made. Other Standards and amendments that are not yet effective and have not been adopted early by the Group include:

- IFRS 17 Insurance Contracts
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Conceptual Framework for Financial Reporting

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore disclosures have not been made.

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Group. Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 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 in Eveleigh NSW, Australia. The registered office address is Suite 212A/2-4 Cornwallis St, Eveleigh NSW 2015.

(b) COVID-19 Pandemic

In applying the accounting policies, the directors have been mindful of the impact of the COVID-19 pandemic on the Financial Statements, noting that the situation will continue to develop and evolve with time.

The Group has monitored the impact of the pandemic on its operations on an ongoing basis and consequently any resulting effect on the presentation of the Financial Statements. The review, which included operations (clinical trials, manufacturing supply chain); capital markets and business development, considered the impact on the following key financial reporting areas:

- Recognition and measurement of assets and liabilities
- Disclosures regarding estimates, uncertainties and sensitivities
- Going Concern

Notwithstanding that the pandemic has caused some disruption to the Group's operations, it was concluded that no change is required with regard to recognition of assets and liabilities or to disclosures made with regard to estimates, uncertainties and sensitivities as described in this note. The Group's assessment of Going Concern, including any potential impact from COVID-19, is described in Note 1 to these accounts.

(c) Basis of consolidation

The Group financial statements consolidate those of the Parent Company and its subsidiary as of 30 June 2020. 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 2019. All transactions and balances between Group companies are eliminated on consolidation as at 30 June 2020, 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 subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

(d) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

3. Summary of accounting policies continued

(d) Functional currency translation 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.

(e) 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 2020 has been recognised as income for said year however it will not be received until after 30 June 2020.

(f) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

3. Summary of accounting policies continued

(g) 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.

(h) 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.

(i) 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 Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(j) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

3. Summary of accounting policies continued

(k) 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.

(l) 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.

(m) Leased Assets

The Group has applied AASB 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under AASB 117 and Interpretation 4.

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use.

The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

3. Summary of accounting policies continued

(n) 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.

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.

(o) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

3. Summary of accounting policies continued

(p) Patents

All patent costs are expensed as incurred.

(q) Share Based Remuneration

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans are cash-settled. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to the Share Options Reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

(r) 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. The directors have considered the impact of the COVID-19 pandemic on the accounting estimates and judgements and concluded that none of the estimates and judgements described here have been significantly impacted by the pandemic. Accordingly, no adjustment was required relative to the approach taken in the prior year.

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 Fair Value (FV) of the Share Options 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

3. Summary of accounting policies continued

(r) Critical accounting estimates and judgements continued

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.

4. Interests in subsidiary

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 20	30 Jun 19
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:

	2020 \$	2019 \$
Finance income	59,416	81,298
Grant income		
Department of Industry, Innovation & Science	272,312	1,341,531
Belgium Walloon Government	29,567	-
Other Income	50,000	-
Research and development incentive	2,486,933	1,301,958
	2,838,812	2,643,489

6. Cash and cash equivalents

Cash and cash equivalents consist of the following:

Cash at bank - Australian Dollars	5,054,650	3,630,991
Cash at bank - Euro	210,840	259,548
	5,265,490	3,890,539

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

7. Other financial assets

	2020	2019
	\$	\$
Current		
Term deposits	1,000,000	4,522,652
	1,000,000	4,522,652
Non-current		
Security deposit	11,380	3,107
	11,380	3,107

This security deposit represents one month's rental fees for the business premises. The landlord may deduct from the security deposit amounts 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

Consumption taxes receivable	153,178	62,956
Research & development incentive receivable	2,497,212	1,365,209
Interest receivable	9,243	30,558
Other receivables	-	276,986
Other Receivables	2,659,633	1,735,709

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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

9. Plant & equipment

	2020	2019
	\$	\$
Equipment	119,345	118,020
Less accumulated depreciation	(69,824)	(64,735)
	49,521	53,285
Balance as at 1 July	53,285	59,632
Additions	14,495	15,670
Disposals	(1,260)	-
Depreciation	(16,999)	(22,017)
Balance as at 30 June	49,521	53,285

10. Trade & other payables

Trade and other payables recognised consist of the following:

Current:		
Trade creditors	155,940	528,412
Sundry creditors	303,247	175,714
Payroll liabilities	71,841	61,488
Superannuation payable	57,932	61,155
Total trade and other payables	588,960	826,769

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	108,687	146,489
	108,687	146,489

Deferred income at 30 June 2020 arises from unexpended amounts under a grant received by Clarity Pharmaceuticals Europe SA (from the Walloon Government, Belgium) supporting the Group's research and development programs. At 30 June 2019 the amount also included unexpended amounts under a grant received by Clarity Pharmaceuticals Ltd (from the Department of Industry, Innovation and Science).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

12. Provisions

	2020	2019
	\$	\$
Current:		
Annual leave liability	249,297	158,916
Non-Current:		
Long service leave liability	9,150	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.

13. Equity

Ordinary shares		
Issued and fully paid	23,933,000	18,963,108
Total contributed equity at 30 June	23,933,000	18,963,108

	2020	2019
	Number	Number
Movement in ordinary shares on issue		
As at 1 July	7,115,553	5,719,283
Issue on exercise of share options	400,000	360,000
Private placement	273,151	1,036,270
As at 30 June	7,788,704	7,115,553

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

The Group's objective is to ensure it continues as a going concern as well as to maintaining optimal returns to shareholders and benefits for other stakeholders. It also seeks to maintain the lowest cost of capital to which it is available.

The Group may, based on its circumstances and prevailing market conditions, adjust the capital structure; change the amount of dividends to be paid to shareholders; return capital to shareholders; or issue new shares as appropriate. No dividends were paid in the current financial period (2019 – nil).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

14. Share option reserve

	2020	2019
	\$	\$
Balance as at 1 July	2,157,205	1,931,038
Share options expensed	1,188,997	522,161
Options exercised	<u>(272,627)</u>	<u>(295,994)</u>
Balance as at 30 June	<u>3,073,575</u>	<u>2,157,205</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:

	2020	2019
	\$	\$
Result before income tax	<u>(6,953,863)</u>	<u>(3,684,332)</u>
Prima facie tax payable on (loss) before income tax at 27.5%	(1,912,312)	(1,013,191)
Add: Tax effect of:		
Non-deductible research and development expense subject to R&D tax incentive	1,558,561	872,625
Non-deductible share-based payment	326,974	143,594
Less: Tax effect of:		
Research & development incentive	(2,486,933)	(1,348,416)
Other differences	27,643	32,265
Tax effect of losses not brought to account	<u>2,486,067</u>	<u>1,313,123</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%)	1,425,469	742,429
Clarity Pharmaceuticals Europe SA (20%)	<u>19,213</u>	<u>22,158</u>

Unused tax losses for Clarity Pharmaceuticals Ltd at 30 June 2019 has been re-stated from prior year following lodgement of the tax return for that year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

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. Employee remuneration

(a) Employee benefits expense

Expenses recognised for employee benefits are analysed below:

	2020	2019
	\$	\$
Wages, salaries	2,266,119	2,082,458
Superannuation costs	243,709	169,587
Share-based payments	1,188,997	522,161
Other employee expenses	284,701	213,858
Employee benefits expense	<u>3,983,526</u>	<u>2,988,064</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

16. Employee remuneration continued

(b) Share-based employee remuneration

As at 30 June 2020, 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 \$1,188,997 (2019 - \$522,161) 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 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
Granted - 1 July 2019	115,000	12.10	4.06
Granted - 22 July 2019	5,000	12.10	4.08
Expired - 30 September 2019	(20,000)	1.50	4.12
Granted - 1 October 2019	50,000	12.10	4.38
Granted - 21 October 2019	5,000	12.10	4.40
Exercised - 14 November 2019	(200,000)	1.50	4.83
Granted - 1 December 2019	10,000	12.10	4.88
Expired - 17 December 2019	(5,000)	1.50	4.89
Expired - 31 December 2019	(5,000)	1.50	4.91
Exercised - 28 February 2020	(200,000)	1.50	5.50
Granted - 1 March 2020	10,000	18.75	5.61
Granted - 2 March 2020	20,000	18.75	5.83
Expired - 1 April 2020	(6,666)	4.40	5.84
Granted - 1 June 2020	5,000	18.75	5.89
Outstanding at 30 June 2020	1,183,334		5.89

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

16. Employee remuneration continued

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

1 November 2019	\$9.65
24 February 2020	\$9.65

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	1 Jul 2019	22 Jul 2019	1 Oct 2019	21 Oct 2019
Share Price	\$9.65	\$9.65	\$9.65	\$9.65
Exercise Price	\$12.10	\$12.10	\$12.10	\$12.10
Volatility Rate	94.14%	94.11%	93.27%	93.96%
Options Life	5 years	5 years	5 years	5 years
Risk-free interest rate	1.023%	1.002%	0.745%	0.820%

Grant Date	1 Dec 2019	1 Mar 2020	1 Jun 2020
Share Price (\$)	\$9.65	\$15.00	\$15.00
Exercise Price (\$)	\$12.10	\$18.75	\$18.75
Volatility Rate	95.10%	92.96%	84.98%
Options Life	5 years	5 years	5 years
Risk-free interest rate	0.702%	0.417%	0.397%

The volatility rate was determined by applying the median share price volatility at grant date of five comparable Australian listed biotech companies.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

17. Cash flow statement reconciliation

	2020	2019
	\$	\$
Reconciliation of net loss after tax to net cash flows from operations		
Loss from ordinary activities after Income Tax	(6,953,863)	(3,684,332)
Loss of sale of fixed assets	1,260	-
Cash held pending allotment	(7,500)	-
Non-Cash items in Total Comprehensive Income:		
Depreciation expense	16,999	22,017
Share option expense	1,188,997	522,161
Changes in Assets and Liabilities:		
(Increase) in Trade and Other Receivables	(923,924)	(689,065)
Decrease/(Increase) in Prepayments	28,025	(157,012)
(Increase) in Other Financial Assets	-	(39)
(Decrease)/Increase in Trade and Other Payables	(237,809)	370,489
(Decrease)/Increase in Deferred Income	(37,801)	(177,564)
Increase in Provisions	95,319	86,418
Cash Flow from Operations	<u>(6,830,297)</u>	<u>(3,706,927)</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

18. Financial instruments

(a) Assets

	2020	2019
	\$	\$
Current assets		
Financial assets:		
Cash at bank	5,265,490	3,890,539
Term deposits	1,000,000	4,522,652
Other receivables	2,659,633	1,735,709
Total financial assets	8,925,123	10,148,900
Non-current assets		
Financial assets:		
Other financial assets	11,380	3,107
Total financial assets	11,380	3,107
Financial assets maturity analysis		
Less than 30 days	4,936,503	10,148,900
31 - 60 days	1,500,000	-
61 – 90 days	1,500,000	-
More than 90 days	1,000,000	3,107
Balance at 30 June	8,936,503	10,152,007

Fair value and credit risk

Due to the short-term nature of the 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 will generate sufficient cash flows for any future cash commitments. It holds sufficient financial assets that are readily available to meet 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

18. Financial instruments continued**(b) Current liabilities**

	2020	2019
	\$	\$
Financial liabilities:		
Trade & other payables	459,187	704,126
Total financial assets	459,187	704,126
Financial liabilities maturity analysis		
Less than 1 year	459,187	704,126
Balance at 30 June	459,187	704,126

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 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 several contracts denominated in US Dollars (USD), Canadian Dollars (CAD) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

18. 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	Fixed	Non-interest
	2020	Less than 1 Year	bearing
	\$	2020	2020
	\$	\$	\$
Financial assets:			
Cash and cash equivalents	2,010,777	4,000,000	254,713
Security deposits	-	-	11,380
Receivables	-	-	2,659,633
Total financial assets	2,010,777	4,000,000	2,925,726
Financial liabilities:			
Trade and other payables	-	-	459,187
Total financial liabilities	-	-	459,187

19. 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 Colin Biggin	Chief Executive Officer to 29 October 2019. CEO & Managing Director from 29 October 2019
Dr Christopher Roberts	Non-Executive Director
Ms Rosanne Robinson	Non-Executive Director
Dr Thomas Ramdahl	Non-Executive Director
Dr Gillies O'Bryan-Tear	Non-Executive Director
Dr Matthew Harris	Chief Scientific Officer (Executive Director to 4 October 2019)

Transactions with key management personnel

The following transactions were determined on an arms-length basis at normal market prices and on normal commercial terms.

Dr Taylor is employed by the Company as Executive Chairman. As at 30 June 2020 there is an amount owing of nil (2019 - \$12,824) from Dr Taylor.

Dr O'Bryan-Tear provided consulting services to The Group throughout the year. On 31 March 2020 he was appointed to Chair the Global Clinical Development group. During the year O'Bryan-Tear Consulting Ltd, a company controlled by him was paid \$121,908 (2019 - \$42,632) in consulting fees.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

19. Related party transactions continued

Dr Ramdahl provides consulting services to The Group. During the year Cetium AS, a company controlled by him was paid \$60,000 (2019 - \$15,000) in consulting fees.

Key management personnel remuneration includes the following expenses:

	2020	2019
	\$	\$
Short-term employee benefits	861,230	990,354
Post-employment benefits	51,758	67,411
Share-based payments	649,188	169,760
Total key management personnel remuneration	<u>1,562,176</u>	<u>1,227,525</u>

Securities held by key management personnel at 30 June were:

	Number	Number
Dr Alan Taylor		
Shares	510,000	430,000
Options	230,000	400,000
Dr Christopher Roberts		
Shares	845,564	845,564
Options	50,000	50,000
Ms Rosanne Robinson		
Shares	-	-
Options	-	-
Dr Thomas Ramdahl		
Shares	-	-
Options	20,000	20,000
Dr Gillies O'Bryan-Tear		
Shares	-	-
Options	40,000	20,000
Dr Colin Biggin		
Shares	14,286	14,286
Options	170,000	90,000

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

20. Auditors remuneration

	2020	2019
	\$	\$
Audit of financial report	62,217	42,000

Our auditors Grant Thornton received fees for the following non-audit services:

	2020	2019
	\$	\$
Tax compliance and advisory	31,240	-
Corporate Advisory	73,149	-
	104,389	-

21. 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 \$5,910,000 (2019 - \$3,150,000). These contingent liabilities are dependent upon the high-risk nature of the various clinical research milestones being achieved successful. It is anticipated that milestones resulting in payments to licensors totalling \$60,000 will be completed reached in the year ending 30 June 2021. \$125,000 in milestone payments were paid during the year ending 30 June 2020.

22. Parent entity information

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

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

	2020	2019
	\$	\$
Statement of financial position		
Current assets	8,836,506	9,986,516
Total assets	9,036,680	10,164,367
Current liabilities	(590,891)	(938,449)
Total liabilities	(849,338)	(938,449)
Net assets	8,187,342	9,225,918
Issued capital	23,933,000	18,963,108
Share option reserve	3,073,575	2,157,205
Retained losses	(18,819,233)	(11,894,395)
Total equity	8,187,342	9,225,918
Statement of profit or loss and other comprehensive income		
Loss for the year	6,939,717	3,718,941
Total comprehensive income	(6,939,717)	(3,718,941)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

23. Post-reporting date events

On 29 September 2020 the company allotted 681,423 new shares in consideration of \$10,221,345. Added to the allotment on 18 June 2020 raising \$4,097,265 this brings to \$14,318,610 the amount raised of the \$25 million capital raise which continues to be offered.

Aside from the above 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.

CLARITY PHARMACEUTICALS LIMITED

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Directors' Declaration

CLARITY PHARMACEUTICALS LIMITED

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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 2020 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.



.....
Director
Dr Alan Taylor

Dated this 30th day of September 2020

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 2020, 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 2020 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.

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 2020, 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

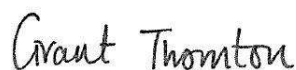
The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001*. The Directors' responsibility also includes such internal control 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.

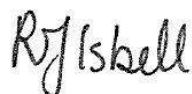
Auditor's responsibilities for the audit of the financial report

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 Ltd
Chartered Accountants



R J Isbell
Partner – Audit & Assurance

Sydney, 30 September 2020