

ASX MEDIA RELEASE

25 August 2021

Appendix 4E

Clarity Pharmaceuticals (ASX: CU6) (“Clarity” or the “Company”), is an Australian-based clinical stage radiopharmaceutical company developing next-generation products to address the growing need for the use of radiopharmaceuticals in oncology is pleased to announce it has released its Preliminary Final Report for the period ending 30 June 2021.

The Appendix 4E is attached to this release.

For more information, please contact:

Dr Alan Taylor
Executive Chairman
ataylor@claritypharm.com

Simon Hinsley
Investor/Media Relations
simon@nwrcommunications.com.au
+61 401 809 653

About Clarity Pharmaceuticals

Clarity is a clinical stage radiopharmaceutical company focused on the treatment of serious disease. The Company is a leader in innovative radiopharmaceuticals, developing targeted copper theranostics based on its SAR Technology Platform for the treatment of cancer in children and adults.

www.claritypharmaceuticals.com/

Appendix 4E

Preliminary final report for the year ended 30 June 2021

1. Company details

Name of entity:	Clarity Pharmaceuticals Ltd
ABN:	36143005341
Reporting period:	Year ended 30 June 2021
Previous period:	Year ended 30 June 2020

2. Results for announcement to the market

				\$'000
Revenue from ordinary activities	down	29%	to	42
Loss from ordinary activities after tax attributable to the owners of Clarity Pharmaceuticals Ltd	up	47%	to	(10,221)
Loss for the year attributable to the owners of Clarity Pharmaceuticals Ltd	up	47%	to	(10,221)

Dividends

There were no dividends paid, recommended, or declared during the current financial period.

Comments

The loss for the consolidated entity after providing for income tax amounted to \$10,221,368.

Further comment on the 'Review of operations' is detailed in the Director's Report which is part of the Annual Report.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>10.7</u>	<u>5.2</u>

The number of ordinary shares for both periods had been adjusted to give effect to the share split which occurred in July 2021.

4. Control gained over entities

The Group established a subsidiary on 30 March 2021 in the United States, Clarity Personnel Inc.

Appendix 4E
Preliminary final report for the year ended 30 June 2021

5. Loss of control over entities

Not applicable.

6. Details of associates and joint venture entities

Not applicable.

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unmodified opinion has been issued.

8. Attachments

Details of attachments (if any):

The Annual Report of Clarity Pharmaceuticals Ltd for the year ended 30 June 2021 is attached.

9. Signed

As authorised by the Board of Directors



Robert Vickery
Company Secretary
25 Aug 2021

FINANCIAL REPORT

OF

CLARITY PHARMACEUTICALS LTD

ABN 36 143 005 341

FOR THE YEAR ENDED

30 JUNE 2021

CLARITY PHARMACEUTICALS LTD

ABN 36 143 005 341

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CLARITY PHARMACEUTICALS LTD
ABN 36 143 005 341
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2021

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 2021.

Director details

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

Dr Alan Taylor	Executive Chairperson
Dr Colin Biggin	Managing Director and Chief Executive Officer
Ms Rosanne Robinson	Non-Executive Director
Dr Christopher Roberts	Non-Executive Director
Dr Thomas Ramdahl	Non-Executive Director
Dr Charles Gillies O'Bryan-Tear	Non-Executive Director
Mr Rob Thomas	Non-Executive Director (Appointed 25 August 2021)

Company Secretary

The Company Secretary during the financial year was Mr Robert Vickery, who remains Company Secretary at the date of this report.

Principal activities

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

Result

The loss for the year was \$10.221 million (2020: \$6.953 million loss) reflecting increased clinical development activities.

Statement of Financial Position

The Group's financial position compared to the prior year was as follows:

- Cash on hand as at 30 June 2021 was \$8.439 million compared to \$5.265 million at 30 June 2020.
- Net assets increased to \$20.278 million from \$8.159 million at 30 June 2020.

The Board believes the Group is well placed to support its programs throughout 2021/22.

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Review of operations

Following another year of significant achievement, Clarity Pharmaceuticals Ltd now has a broad pipeline of products in clinical and preclinical stages including:

- SARTATE™ Neuroblastoma: for the treatment of neuroblastoma, Phase I/IIa
- SARTATE™ NET s: for the diagnosis of neuroendocrine tumours (NETs), Phase II
- SAR-Bombesin: a pan-cancer treatment product, including for the treatment of breast cancer and prostate cancer, Phase I
- SAR-bisPSMA: for the treatment of prostate cancer, Phase I/IIa; for the diagnosis of prostate cancer, Phase I

The Company currently has two open Investigational New Drug (IND) applications that have received clearance to proceed to clinical trials from the FDA for its theranostic SARTATE™ and SAR-bisPSMA products. SARTATE™ has been granted two Orphan Drug Designation and two Rare Paediatric Disease Designations from the FDA for the management and treatment of neuroblastoma.

On 25 August 2021 the company listed on the Australian Stock Exchange, having raised \$92 million from investors to expand and progress its clinical program and other activities.

Achievements during and since the reporting period include:

Clinical

- Jul 2020 SARTATE™ neuroblastoma clinical trial opens for recruitment
- Sep 2020 First patient treated with Copper-64 SAR-Bombesin in breast cancer clinical trial
- Nov 2020 Patient treatments commence with Copper-64/copper-67 SARTATE in neuroblastoma clinical trial
- Apr 2021 First patient treated in Copper-64 SARTATE Phase II trial in patients with neuroendocrine tumours (NETs)
- Jun 2021 Neuroblastoma study in the US site expansion
- Jul 2021 64Cu SAR-bisPSMA trial (PROPELLER) opens for recruitment

Regulatory

- Sep 2020 US FDA Grants Rare Paediatric Disease Designation to 64Cu SARTATE, a diagnostic for the clinical management of neuroblastoma
- May 2021 Clarity Received US FDA response on its Theranostic Investigational New Drug (IND) Application that the SAR-bisPSMA SECURE study may proceed

Intellectual Property

- Feb 2021 Assignment of key patents from the University of Melbourne (previously licensed to the Group)
- May 2021 SAR-bisPSMA patent granted in the US

Personnel

- May 2021 Shaemus Gleason Appointed Executive Vice President US Operations

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Significant changes in the state of affairs

During the year the Group established a subsidiary (on 30 March 2021) in the United States, Clarity Personnel Inc., to employ US staff.

There have been no other significant changes in the state of affairs of the Group during the financial year.

Events arising since the end of the reporting period

On 1 July 2021 30,000 options with an exercise price of \$2.50 each were exercised for a total cash consideration of \$75,000.

At an Extraordinary General Meeting (EGM) of shareholders held on 13 July 2021, it was resolved that all shares in Clarity Pharmaceuticals Ltd be split on the basis that every share on issue be split into twenty shares. Options were split on the basis that every option on issue be split into twenty options, with exercise prices one-twentieth of their original issue. The effective date of the share split for both shares and options was 13 July 2021. The number of issued shares at 30 June 2021 was 9,490,913. On 13 July 2021 pre-share split it was 9,520,913. Following share split on 13 July 2021 shares on issue totalled 190,418,260.

At an EGM of shareholders held 13 July 2021, it was resolved that Clarity Pharmaceuticals Ltd would pursue an initial public offering on the Australian Securities Exchange (ASX). It was also resolved that the Company would adopt a new constitution on listing on the ASX.

The Group lodged a Prospectus with ASIC on 16 July 2021 seeking to list on the ASX and raise \$92 million through the issue of 65,714,286 shares at \$1.40 each. On 25 August 2021 the Group listed on the ASX. The Group received approximately \$86.6 million in net proceeds from the IPO after the payment of fees of \$5.4 million. The Group lodged a Supplementary Prospectus with ASIC on 18 August 2021. The capital raised in the IPO will predominantly be used to implement the Group's clinical development strategy and expand its product portfolio.

Due to an outbreak of COVID-19, the greater Sydney region, where the Group is headquartered, was subjected to Government mandated restrictions, including a Stay At Home order, on 26 June 2021. The restrictions remain in place at the date of this report. This event has had minimal effect on operations. Employees have been able to continue to work from home with minimal disruption. Clinical trial activities and product supply have not been significantly impacted. The Group is not aware of any specific effects from these restrictions, or the COVID-19 pandemic generally, 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.

Dividends

No dividends were paid and the Directors did not recommend a dividend to be paid.

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Unissued shares under option

Unissued ordinary shares of Clarity Pharmaceuticals Ltd under option at the date of this report are set out on the following table:

Grant Date	Date of Expiry	Exercise Price ¹	Number under Option ¹
17 January 2017	17 January 2022	\$0.220	200,000
28 April 2017	28 April 2022	\$0.220	800,000
1 July 2017	1 July 2022	\$0.220	2,000,000
1 November 2017	1 November 2022	\$0.220	200,000
1 January 2018	1 January 2023	\$0.220	400,000
15 February 2018	16 February 2023	\$0.220	1,066,680
1 July 2018	1 July 2023	\$0.220	2,600,000
3 December 2018	3 December 2023	\$0.605	200,000
10 December 2018	10 December 2023	\$0.605	200,000
21 March 2019	21 March 2024	\$0.605	800,000
1 July 2019	5 August 2024	\$0.605	2,100,000
22 July 2019	5 August 2024	\$0.605	100,000
1 October 2019	1 October 2024	\$0.605	1,000,000
21 October 2019	21 October 2024	\$0.605	100,000
1 December 2019	1 December 2024	\$0.605	200,000
1 March 2020	1 March 2024	\$0.938	200,000
2 March 2020	2 March 2025	\$0.938	400,000
1 June 2020	1 June 2025	\$0.938	100,000
1 July 2020	1 July 2025	\$0.938	3,560,000
26 August 2020	26 August 2025	\$0.938	100,000
15 December 2020	15 December 2023	\$1.125	918,220
4 May 2021	4 May 2026	\$0.938	200,000
10 May 2021	10 May 2026	\$0.938	1,000,000
17 June 2021	18 December 2024	\$0.825	7,100,000
			25,544,900

1. The number under option and exercise price have been re-stated for the effect of the 1:20 share split completed on 13 July 2021 (Number under option: 1,277,245 in pre-split terms).

Options were issued under various conditions to both employees and non-employees of the Group. Vesting conditions are described in Note 18 to the Financial Statements, 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 because of exercise

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

Date shares granted	Pre-Share Split		Restated: Post-Share Split	
	Issue price of shares ¹	Number of shares issued	Issue price of shares ^{1,2}	Number of shares issued ²
23 December 2020	\$3.50	92,000	\$0.175	1,840,000
24 December 2020	\$3.50	153,333	\$0.175	3,066,660
23 February 2021	\$2.50	3,333	\$0.125	66,660
14 April 2021	\$2.50	50,000	\$0.125	1,000,000
28 June 2021	\$2.50	10,000	\$0.125	200,000
1 July 2021	\$2.50	30,000	\$0.125	600,000
		338,666		6,773,320

1. Re-stated for the effect of the 1:20 share split completed on 13 July 2021

Regulatory and environmental matters

The Group's activities include working with radiopharmaceutical products that use radioactive materials, which generate medical and other regulated wastes. It is required to carry out its activities in accordance with applicable environment and human safety regulations in each of the jurisdictions it undertakes operations. The Group is not aware of any matter that requires disclosure with respect to any significant regulations in respect of its operating activities, and there have been no issues of non-compliance during the year.

Meetings of directors

During the reporting period, 8 meetings of Directors were held. Attendances by each Director during the year were as follows:

	Meetings eligible to attend	Meetings attended
Dr Alan Taylor	8	8
Dr Colin Biggin	8	8
Ms Rosanne Robinson	8	8
Dr Christopher Roberts	8	8
Dr Thomas Ramdahl	8	8
Dr Charles Gillies O'Bryan Tear	8	7

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Audit and risk committee

The role of the Audit and Risk Committee is to assist the Board in fulfilling its accounting, auditing and financial reporting responsibilities, including oversight of:

- the integrity of the Company's financial reporting systems, internal and external financial reporting and financial statements;
- the appointment, remuneration, independence and competence of the Company's external auditors;
- the performance of the external audit functions and review of their audits;
- the effectiveness of the Company's system of risk management and internal controls; and
- the Company's systems and procedures for compliance with applicable legal and regulatory requirements.

With effect from listing, the Audit and Risk Committee comprises Mr Rob Thomas (Chair), Ms Rosanne Robinson and Dr Christopher Roberts.

Remuneration and Nomination Committee meetings

During the period, two meetings of the Remuneration and Nomination Committee were held.

Attendance by each member during the period were as follows:

	Meetings eligible to attend	Meetings attended
Ms Rosanne Robinson	2	2
Dr Christopher Roberts	2	2

The Role of the Nomination and Remuneration Committee is to assist and advise the Board on:

- Board succession planning generally;
- induction and continuing professional development programs for Directors;
- the development and implementation of a process for evaluating the performance of the Board, its committees and Directors;
- the process for recruiting a new Director, including evaluating the balance of skills, knowledge, experience, independence and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment;
- the appointment and re-election of Directors; and
- ensuring there are plans in place to manage the succession of the CEO and other senior executives of the Company,

to ensure that the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of the Group as a whole.

With effect from listing, the Nomination and Remuneration Committee comprises Ms Rosanne Robinson (Chair), Dr Thomas Ramdahl, Mr Rob Thomas and Dr Charles Gillies O'Bryan-Tear.

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Directors' qualifications and experience

Dr Alan Taylor, PhD – Executive Chairperson

Dr Taylor joined the Board in November 2013 as Executive Chairperson. Dr Taylor has been instrumental in the growth of the Company and has been heavily involved in all areas of the Company's business.

Dr Taylor has approximately 15 years of investment banking experience focused predominantly on the life sciences sector, and has significant expertise in capital raisings, mergers and acquisitions, and general corporate advisory. Prior to joining Clarity, Dr Taylor was an Executive Director of Inteq Limited, a boutique Australian investment bank.

After receiving the University Medal for his undergraduate degree in Applied Science at the University of Sydney, Dr Taylor completed his PhD in Medicine at the Garvan Institute of Medical Research. Dr Taylor has also completed a Graduate Diploma in Applied Finance at the Securities Institute of Australia.

Other Current Listed Directorships:	Interest in Issued Shares:
Nil	13,266,660

Previous Listed Directorships (last 3 years):	Interest in Issued Options:
Nil	2,800,000

Dr Colin Biggin, PhD – Managing Director and CEO

Dr Biggin joined the Board in October 2019 as Managing Director and CEO after playing an instrumental role in enhancing and designing the Company's product development and clinical programs since he first joined the Company in January 2017.

Dr Biggin has over 15 years of radiopharmaceutical development and commercialisation experience. Dr Biggin previously served with Algeta ASA during the development and commercialisation of its product Xofigo® (radium-223 dichloride) for metastatic prostate cancer, which was approved by the FDA in 2013. Prior to joining the Company, Dr Biggin also consulted to a range of biotech and large pharmaceutical companies developing radiopharmaceuticals.

Dr Biggin holds a Bachelor of Science (Honours) and a PhD from the University of Glasgow.

Other Current Listed Directorships:	Interest in Issued Shares:
Nil	419,100

Previous Listed Directorships (last 3 years):	Interest in Issued Options:
Nil	5,600,000

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Ms Rosanne Robinson - Non-Executive Director

Ms Robinson joined the Board in October 2010 as a Non-Executive Director.

Ms Robinson brings extensive experience in the nuclear field and a range of commercial expertise to the Group and has over 25 years of experience in both governance and management roles in public and private companies and government. Ms Robinson is the General Manager of Business Development at Australian Nuclear Science and Technology Organisation. Ms Robinson's in-depth knowledge of the nuclear medicine industry provides the Company with a clear vision across the dynamics of, and most recent changes in, the sector.

Ms Robinson holds a Bachelor of Business (Accounting), a Graduate Diploma of Accounting (CA) and is a Graduate of the Australian Institute of Company Directors.

Other Current Listed Directorships:	Interest in Issued Shares:
Nil	Nil

Previous Listed Directorships (last 3 years):	Interest in Issued Options:
Nil	200,000

Dr Christopher Roberts, PhD - Non-Executive Director

Dr Roberts joined the Board in March 2016 as a Non-Executive Director.

Dr Roberts has over 40 years of experience in the medical innovation space and has served on the boards of a number of ASX-listed companies during his career. Dr Roberts was previously the CEO of ASX-listed company Cochlear Limited and Chairman of ASX-listed company Sirtex Medical Ltd. Dr Roberts was also Executive Vice-President and a director of the dual-listed (ASX and NYSE) company ResMed Inc., a global sleep disorder treatment company. Dr Roberts is Chairman of the ASX-listed company Oncosil Ltd.

Dr Roberts holds a Bachelor of Engineering (Honours) in Chemical Engineering from the University of New South Wales, an MBA from Macquarie University and a PhD from the University of New South Wales. He has also been awarded Honorary Doctor of Science degrees from Macquarie University and the University of New South Wales.

Other Current Listed Directorships:	Interest in Issued Shares:
Oncosil Ltd	17,911,280

Previous Listed Directorships (last 3 years):	Interest in Issued Options:
Nil	200,000

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Dr Thomas Ramdahl, PhD - Non-Executive Director

Dr Ramdahl joined the Board in March 2019 as a Non-Executive Director.

Dr Ramdahl is a pharmaceutical executive with over 20 years of clinical and development experience. In 2001, he became President and the first CEO of Algeta ASA. When Dr Ramdahl joined Algeta, he was one of six employees and he played an instrumental role in its success, serving in several senior positions within the company through to and post the acquisition of Algeta by Bayer AG in 2014 for US\$2.9 billion. Dr Ramdahl has authored more than 40 publications and is a co-inventor of several patents. Dr Ramdahl currently serves as Chairman of Precirix (Belgium) and AppSens AS (Norway).

Dr Ramdahl gained his PhD in Environmental Chemistry from the University of Oslo and holds a Master of Science in Organic Chemistry from the Norwegian Institute of Technology.

Other Current Listed Directorships:
Nil

Interest in Issued Shares:
Nil

Previous Listed Directorships (last 3 years):
Nil

Interest in Issued Options:
600,000

Dr Charles Gillies O'Bryan-Tear, MBBS FRCrcP - Non-Executive Director

Dr O'Bryan-Tear joined the Board in April 2019 as a Non-Executive Director.

Dr O'Bryan-Tear has over 30 years of experience in the pharmaceutical industry in clinical development, medical management and commercial roles. He has held senior leadership roles in large and small pharmaceutical and biotech companies in the US and Europe and has been involved in multiple product approvals. He was previously the Chief Medical Officer of Algeta ASA. Dr O'Bryan-Tear has been an adviser to several US and European biotech companies and is a member of the Scientific Advisory Boards of Audentes, Inc. (US) and Fusion Pharmaceuticals Inc. (Canada).

Dr O'Bryan-Tear obtained his Doctor of Medicine degree from the Universities of Cambridge and London and trained in internal medicine and oncology in the United Kingdom.

Other Current Listed Directorships:
Nil

Interest in Issued Shares:
Nil

Previous Listed Directorships (last 3 years):
Nil

Interest in Issued Options:
900,000

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Mr Rob Thomas - Non-Executive Director

Mr Thomas joined the Board as a Non-Executive Director on 25 August 2021.

Mr Thomas has a strong background in financial services and capital markets and has considerable expertise in mergers & acquisitions and capital markets including advising on the IPOs of the Commonwealth Bank of Australia and Qantas. Mr Thomas is the former CEO of County NatWest Securities and the former CEO (and then Chairman) of Citi Corporate and Investment Bank Australasia. Mr Thomas has also held the position of Chairman at Australian Wealth Management Ltd (ultimately IOOF Ltd), TAL (Australia's largest life insurance company) and the previously ASX-listed company HeartWare® International Inc. Mr Thomas is the Chairman of AusBio Ltd, Grahger Retail Securities Pty Ltd and ASX-listed Starpharma Holdings Limited and is a non-executive director of Biotron Limited and O'Connell Street Associates. He is a past non-executive director of Reva Medical Inc. and Virgin Australia.

Mr Thomas holds a Bachelor of Economics from Monash University and a Diploma of Business (Accounting) from Swinburne. He is a Fellow of the Securities Institute of Australia, Fellow of the Australian Institute of Company Directors and a Fellow of the Royal Society of New South Wales. He is also Co-Chair of the State Library of New South Wales Foundation.

Other Current Listed Directorships:

Starpharma Holdings Ltd
Biotron Ltd

Interest in Issued Shares:

1,025,000

Previous Listed Directorships (last 3 years):

Reva Medical, Inc

Interest in Issued Options:

Nil

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Remuneration report - Audited

This Remuneration Report for the year ended 30 June 2021 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 (Cth) and its regulations. This information has been audited as required by section 308(3C) of the Corporations Act 2001 (Cth).

Unless otherwise stated, all share and option details are presented in this report in post-split terms. This follows an Extraordinary General Meeting (EGM) of shareholders held on 13 July 2021 where it was resolved that all shares in Clarity Pharmaceuticals Ltd be split on the basis that every share on issue be split into twenty shares. Options were also split on the basis that every option on issue be split into twenty options, with an exercise price of one-twentieth of their original issue. The effective date of the share split for both shares and options was 13 July 2021.

The Remuneration Report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director, whether executive or otherwise.

For the purposes of this report, the term 'Director' refers to Non-Executive Directors (NEDs) only. 'KMP' refers to Executive Directors and other key management personnel.

The names and details of the Directors and KMP of the Group in office during the financial year and until the date of this report are detailed below. Apart from Mr Thomas, all Directors and KMP listed are in office at the date of this report and held the position for the full financial year.

Non-Executive directors

Ms Rosanne Robinson	Non-Executive Director
Dr Christopher Roberts	Non-Executive Director
Dr Thomas Ramdahl	Non-Executive Director
Dr Charles Gillies O'Bryan-Tear	Non-Executive Director
Mr Rob Thomas	Non-Executive Director (Appointed 25 August 2021)

Executive directors

Dr Alan Taylor	Executive Chairperson
Dr Colin Biggin	Managing Director

Other key management personnel

Mr Robert Vickery	Chief Financial Officer
Dr Matthew Harris	Chief Scientific Officer

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Remuneration policy

The Group has established various incentive arrangements, described below, to assist in the attraction, motivation and retention of employees of the Group.

The arrangements have been designed to support a high-performance culture and encourage superior business performance.

In summary, the Board has determined that initially the remuneration framework for senior management should comprise the following components:

- fixed remuneration – consisting of base salary and superannuation contributions;
- short-term incentives paid in cash/a mixture of cash and equity (for example, under the Equity Incentive Plan); and/or
- long-term incentives granted in equity (for example under the Equity Incentive Plan).

The Remuneration and Nomination Committee is responsible for developing, reviewing, making recommendations, and aiding and advising the Board on the remuneration arrangements for directors and executives.

Non-Executive director remuneration

All Non-Executive Directors enter into a letter of appointment, which summarises obligations, policies and terms of appointment, including remuneration, relevant to the office of Director of the Group. The Board determines the total amount paid to each director as remuneration for his or her services as a director of the Group. The maximum aggregated amount of fees that may be paid to the Non-Executive Directors for their services is subject to approval by shareholders at the Annual General Meeting. This cap has been set at \$500,000 per annum (including any superannuation payments).

Remuneration for Non-Executive Directors during the financial year consists of fixed remuneration, and in some cases, superannuation contributions.

Key Management Personnel

The Group's remuneration policy is designed to attract, retain and motivate highly qualified and experienced KMP. Employment contracts have been entered into with all KMP of the Group. Remuneration for KMP during the financial year consists predominantly of fixed remuneration in the form of salary and superannuation contributions. Variable remuneration in the form of short-term incentives payable as a cash bonus is provided occasionally at the Board's discretion, based on Remuneration and Nomination Committee recommendations. All remuneration, including performance-based remuneration, paid to KMP is valued at the cost to the Group and expensed.

Performance-based remuneration

Short-term incentives (STIs): The Board may elect to adopt and approve certain short-term incentive arrangements for management and other select Group employees.

Under the short-term incentive arrangements, participants will have an opportunity to generally receive a cash incentive payment calculated as a percentage of their fixed annual remuneration, conditional on the achievement of financial and non-financial performance measures.

The performance measures against which each participant's short-term incentive will be assessed and their relative weightings will be:

- tailored to a participant's role;
- set by the Board each year; and
- measured in respect of the Group's financial year (or such other period as set by the Board).

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Remuneration policy continued

The Board may set certain conditions that must be met prior to participants receiving any payment and, if met, a balanced scorecard will be used to determine the quantum of the payment.

Options and rights: The Board views equity-based remuneration as a strategic form of remuneration for management. The Board has adopted the Equity Incentive Plan (EIP) to facilitate the grant of equity to management and employees after listing in circumstances in which the Board determines a grant of equity is appropriate.

Under the EIP, Options, Performance Rights and Restricted Shares may be granted to eligible participants which includes Directors and employees.

The Board may consider the future use of equity-based remuneration to reward, motivate and retain management including the use of equity as a means of deferring short-term incentives.

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 was not trading publicly in the year ended 30 June 2021, judgement was also required to determine the share price input for the Black Scholes valuation. The Company determined the share price as the price of the most recent successful capital raising, or the share price where there was sufficient interest from investors to begin a new capital raising.

Consequences of performance on Shareholder Wealth:

	2021	2020	2019	2018	2017
EPS (cents)	(0.0519)	(0.0446)	(0.0258)	(0.0149)	(0.0208)
Dividends	Nil	Nil	Nil	Nil	Nil
Net profit/loss (\$,000)	(9,855)	(6,953)	(3,676)	(1,704)	(2,372)
Share price (\$) ¹	0.7500	0.7500	0.4825	0.1750	0.1750

1. Share prices were determined by the Board of Directors. No active market existed for the shares

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Performance-based remuneration is apportioned as follow:

Performance-based remuneration - 2021

	Position Held as at 30 June 2021	<u>Related to performance</u>		<u>Not related to performance</u>		<u>Total</u>	
		Non-salary		Options/ Rights	Fixed Salary/ Fees		Consulting Fees
		Cash- based Incentives	Options / Rights				
		%	%	%	%	%	
<u>Key Management Personnel</u>							
Dr A Taylor	Executive Chairperson	30%	-	35%	35%	-	100%
Dr C Biggin	Managing Director	11%	-	53%	36%	-	100%
Ms R Robinson	Non-Executive Director	-	-	12%	88%	-	100%
Dr C Roberts	Non-Executive Director	-	-	12%	88%	-	100%
Dr T Ramdahl	Non-Executive Director	-	-	6%	47%	47%	100%
Dr C G O'Bryan- Tear	Non-Executive Director	-	-	54%	13%	33%	100%
Mr R Thomas ¹	Non-Executive Director	-	-	-	-	-	-
Dr M Harris	Chief Scientific Officer	-	-	19%	81%	-	100%
Mr R Vickery	Chief Financial Officer	-	-	30%	70%	-	100%

1. Mr Thomas was appointed to the Board on 25 August 2021

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Performance-based remuneration – 2020

	Position Held as at 30 June 2020	<u>Related to performance</u>		<u>Not related to performance</u>		<u>Total</u> %	
		<u>Non-salary Cash- based Incentives</u> %	<u>Options / Rights</u> %	<u>Options/ Rights</u> %	<u>Fixed Salary/ Fees</u> %		<u>Consulting Fees</u> %
<u>Key Management Personnel</u>							
Dr A Taylor	Executive Chairperson	17%	-	27%	56%	-	100%
Dr C Biggin	Managing Director	7%	-	44%%	49%%	-	100%
Ms R Robinson	Non-Executive Director	-	-	-	-	-	-
Dr C Roberts	Non-Executive Director	-	-	-	-	-	-
Dr T Ramdahl	Non-Executive Director	-	-	45%	-	55%	100%
Dr C G O'Bryan- Tear	Non-Executive Director	-	-	64%	-	36%	100%
Dr M Harris	Chief Scientific Officer	-	-	-	100%	-	100%
Mr R Vickery	Chief Financial Officer	-	-	17%	83%	-	100%

1. Dr Biggin was appointed to the Board as Managing Director on 20 October 2019
2. Dr Harris resigned as Managing Director and Chief Executive Officer and was appointed Chief Scientific Officer on 4 October 2019

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Director Remuneration for the year ended 30 June 2021

	Short-term benefits			Post Employ- ment	Termin- ation Benefits	Share- based Payment	Total
	Directors fees & Salary \$	Bonus \$	Other ¹ \$	Superan- nuation \$	Termin- ation Benefits \$	Options \$	
<u>Non-Executive Directors</u>							
Ms R Robinson	27,500	-	-	2,613	-	3,973	34,086
Dr C Roberts	30,113	-	-	-	-	3,973	34,086
Dr T Ramdahl	30,000	-	30,000	-	-	3,973	63,973
Dr C G O'Bryan-Tear Mr R Thomas ²	30,113	-	72,376	-	-	119,085	221,574
	-	-	-	-	-	-	-
<u>Executive Directors</u>							
Dr A Taylor	415,577	377,750	-	25,000	-	444,046	1,262,373
Dr C Biggin	308,482	97,190	-	21,694	-	480,068	950,834
Total	841,785	474,940	102,376	49,307	-	1,055,118	2,523,526

1. Dr Ramdahl and Dr O'Bryan Tear received consulting fees for services provided to the Group.
2. Mr Thomas was appointed to the Board 25 August 2021

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Director Remuneration for the year ended 30 June 2020

	Short-term benefits			Post Employment	Termination Benefits	Share-based Payment	Total
	Directors fees & Salary	Bonus	Other ¹	Superannuation	Termination Benefits	Directors fees & Salary	
	\$	\$	\$	\$	\$	\$	\$
<u>Non-Executive Directors</u>							
Ms R Robinson	-	-	-	-	-	-	-
Dr C Roberts	-	-	-	-	-	-	-
Dr T Ramdahl	-	-	60,000	-	-	48,798	108,798
Dr C G O'Bryan-Tear	-	-	65,886	-	-	114,765	180,651
<u>Executive Directors</u>							
Dr M Harris ²	212,636	-	-	19,475	-	-	232,111
Dr A Taylor	385,267	126,000	-	25,000	-	197,100	733,367
Dr C Biggin	303,042	43,400	-	21,689	-	288,524	656,655
Total	900,945	169,400	125,886	66,164	-	649,187	1,911,582

1. Dr T Ramdahl and Dr C G O'Bryan Tear received consulting fees for services provided to the Group.
2. Dr M Harris held the position of Managing Director until 4 October 2019. The totals listed in this table represent his total remuneration for the year, not just the period he was Managing Director. He remains Chief Scientific Officer of the Group.

Group Key Management Personnel

Remuneration for Key Management Personnel (KMP) is set out below:

Details of KMP Remuneration for the year ended 30 June 2021 (not including KMP who are also Directors)

	Short-term Benefits		Post Employment	Termination Benefits	Share-based Payment	Total
	Salary	Bonus	Superannuation		Options	
	\$	\$	\$	\$	\$	\$
<u>Key Management Personnel</u>						
Dr M Harris	179,464	-	15,969	-	45,994	241,427
Mr R Vickery	154,227	-	14,065	-	70,736	239,028
Total	333,691	-	30,034	-	116,730	480,455

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Information relating to KMP Bonuses for the Year Ending 30 June 2021

	Grant Date	Nature of compensation	Service and performance criteria	% Paid	% Forfeited	Minimum/Maximum possible grant for 2020/2021
Dr A Taylor	Dec 2020	Cash	Clinical & corporate Milestones	72%	28%	\$0/\$175,000
	Dec 2020	Cash	Corporate & operational achievements	100%	0%	\$0/\$98,000
	Jun 2021	Cash	Clinical & corporate milestones	80%	20%	\$0/\$192,188
Dr C Biggin	Dec 2020	Cash	Clinical & corporate Milestones	87%	13%	0/\$50,000
	Dec 2020	Cash	Corporate & operational achievements	100%	0%	0/\$13,200
	Jun 2021	Cash	Clinical & corporate milestones	80%	20%	\$0/\$50,738

Bonuses granted in December 2020 were for key performance indicators (KPIs) set for January to December 2020. They were paid in three tranches in August, October, and December 2020.

Bonuses approved in June 2021 were paid in July 2021 and were for KPIs set for January to June 2021. No other bonus compensation stated above will be paid in subsequent years.

Information relating to KMP Bonuses for the Year Ending 30 June 2020

	Grant Date	Nature of compensation	Service and performance criteria	% Paid	% Forfeited	Minimum/Maximum possible grant for 2020/2021
Dr A Taylor	Jun 2020	Cash	Clinical & corporate Milestones	72%	28%	\$0/\$175,000
Dr C Biggin	Jun 2020	Cash	Clinical & corporate Milestones	87%	13%	0/\$50,000

Bonuses granted in June 2020 were for key performance indicators (KPIs) set for January to December 2020. They were paid in three tranches in August, October, and December 2020.

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Details of KMP Remuneration for the year ended 30 June 2020 (not including KMP who are also Directors)

	Short-term Benefits		Post Employment	Termination Benefits	Share-based Payment	Total
	Salary \$	Bonus \$	Superannuation \$	\$	Options \$	\$
<u>Executive</u>						
Mr R Vickery	126,887	-	11,201	-	30,875	168,963
Total	126,887	-	11,201	-	30,875	168,963

KMP contractual arrangements

Remuneration and other terms of employment for KMP are formalised in Employment Agreements. The major provisions of the agreements relating to remuneration are set out below:

Name	Base salary	Term of agreement	Notice period
Dr A Taylor	\$359,375	Unspecified	6 months
Dr C Biggin	\$285,806	Unspecified	6 months
Dr M Harris	\$168,100	Unspecified	3 months
Mr R Vickery	\$151,200	Unspecified	3 months

Loans to KMPs

The Group does not have any facilities in place to establish loans to KMP. There are no loans to KMP at 30 June 2021 (2020 – nil).

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Options issues as remuneration to Directors and KMP

Director/ KMP	Grant date	Number granted	Exercise price \$	Expiry date	Value per option \$	Probability of exercise ¹	Total value \$	Vesting date	Vested during the year	Lapsed or forfeited during the year	Exercised during the year	Vested at report date	Unvested at report date
2021													
Taylor	1 Jul 20	1,000,000	0.934	1 Jul 25	0.4669	90%	420,210	01 Jul 21	-	-	-	1,000,000	-
Biggin	1 Jul 20	1,000,000	0.934	1 Jul 25	0.4669	90%	420,210	01 Jul 21	-	-	-	1,000,000	-
Harris	1 Jul 20	100,000	0.934	1 Jul 25	0.4669	90%	42,021	01 Jul 21	-	-	-	100,000	-
Vickery	1 Jul 20	140,000	0.934	1 Jul 25	0.4669	90%	58,829	01 Jul 21	-	-	-	140,000	-
Taylor	17 Jun 21	300,000	0.823	18 Dec 24	0.4114	70%	86,402	25 Aug 21	-	-	-	300,000	-
Taylor	17 Jun 21	300,000	0.823	18 Dec 24	0.4114	90%	111,089	13 Apr 22	-	-	-	-	300,000
Taylor	17 Jun 21	300,000	0.823	18 Dec 24	0.4114	75%	92,574	13 Apr 23	-	-	-	-	300,000
Taylor	17 Jun 21	300,000	0.823	18 Dec 24	0.4114	60%	74,059	13 Apr 24	-	-	-	-	300,000
Biggin	17 Jun 21	300,000	0.823	18 Dec 24	0.4114	70%	86,402	25 Aug 21	-	-	-	300,000	-
Biggin	17 Jun 21	300,000	0.823	18 Dec 24	0.4114	90%	111,089	13 Apr 22	-	-	-	-	300,000
Biggin	17 Jun 21	300,000	0.823	18 Dec 24	0.4114	75%	92,574	13 Apr 23	-	-	-	-	300,000
Biggin	17 Jun 21	300,000	0.823	18 Dec 24	0.4114	60%	74,059	13 Apr 24	-	-	-	-	300,000
Harris	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	70%	14,400	25 Aug 21	-	-	-	50,000	-
Harris	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	90%	18,515	13 Apr 22	-	-	-	-	50,000
Harris	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	75%	15,429	13 Apr 23	-	-	-	-	50,000
Harris	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	60%	12,343	13 Apr 24	-	-	-	-	50,000
Vickery	17 Jun 21	125,000	0.823	18 Dec 24	0.4114	70%	36,001	25 Aug 21	-	-	-	125,000	-
Vickery	17 Jun 21	125,000	0.823	18 Dec 24	0.4114	90%	46,287	13 Apr 22	-	-	-	-	125,000
Vickery	17 Jun 21	125,000	0.823	18 Dec 24	0.4114	75%	38,573	13 Apr 23	-	-	-	-	125,000
Vickery	17 Jun 21	125,000	0.823	18 Dec 24	0.4114	60%	30,858	13 Apr 24	-	-	-	-	125,000

Continued over page

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DIRECTORS' REPORT

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Director/ KMP	Grant date	Number granted	Exercise price \$	Expiry date	Value per option \$	Probability of exercise ¹	Total value \$	Vesting date	Vested during the year	Lapsed or forfeited during the year	Exercised during the year	Vested at report date	Unvested at report date
Robinson	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	70%	14,400	25 Aug 21	-	-	-	50,000	-
Robinson	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	90%	18,515	13 Apr 22	-	-	-	-	50,000
Robinson	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	75%	15,429	13 Apr 23	-	-	-	-	50,000
Robinson	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	60%	12,343	13 Apr 24	-	-	-	-	50,000
Roberts	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	70%	14,400	25 Aug 21	-	-	-	50,000	-
Roberts	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	90%	18,515	13 Apr 22	-	-	-	-	50,000
Roberts	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	75%	15,429	13 Apr 23	-	-	-	-	50,000
Roberts	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	60%	12,343	13 Apr 24	-	-	-	-	50,000
Ramdahl	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	70%	14,400	25 Aug 21	-	-	-	50,000	-
Ramdahl	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	90%	18,515	13 Apr 22	-	-	-	-	50,000
Ramdahl	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	75%	15,429	13 Apr 23	-	-	-	-	50,000
Ramdahl	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	60%	12,343	13 Apr 24	-	-	-	-	50,000
O'Bryan Tear	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	70%	14,400	25 Aug 21	-	-	-	50,000	-
O'Bryan Tear	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	90%	18,515	13 Apr 22	-	-	-	-	50,000
O'Bryan Tear	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	75%	15,429	13 Apr 23	-	-	-	-	50,000
O'Bryan Tear	17 Jun 21	50,000	0.823	18 Dec 24	0.4114	60%	12,343	13 Apr 24	-	-	-	-	50,000
2020													
Taylor	1 Jul 19	600,000	0.605	1 Jul 24	0.3285	100%	197,100	1 Jul 20	600,000	-	-	600,000	-
Biggin	1 Jul 19	600,000	0.605	1 Jul 24	0.3285	100%	197,100	1 Jul 20	600,000	-	-	600,000	-
Vickery	22 Jul 19	100,000	0.605	22 Jul 24	0.3285	100%	32,850	22 Jul 20	100,000	-	-	100,000	-
Biggin	1 Oct 19	1,000,000	0.605	1 Oct 24	0.3255	60%	195,300	1 Oct 21	-	-	-	-	1,000,000
O'Bryan Tear	2 Mar 20	400,000	0.938	2 Mar 25	0.5030	90%	181,080	1 Mar 21	400,000	-	-	400,000	-

1. Probability of exercise is determined based on an assessment of vesting conditions and historical data.

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DIRECTORS' REPORT
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Performance rights

2021

No performance rights were issued to Directors or KMP.

2020

No performance rights were issued to Directors or KMP.

Options and rights converted to shares

During the year ended 30 June 2021 the following current and former directors and KMP exercised options:

	Number	Number used in cashless exercise	Exercise price
Dr A Taylor	3,066,660	933,340	0.175
Dr M Harris	1,840,000	560,000	0.175
Dr C Roberts	1,000,000	-	0.125
	5,906,660	1,493,340	

During the year ended 30 June 2020 the following current and former directors and KMP exercised options:

	Number	Number used in cashless exercise	Exercise price
Dr A Taylor ¹	4,000,000	-	0.075
Dr M Harris	4,000,000	-	0.075
	8,000,000	-	

1. In accordance with terms of the option agreements 2,400,000 of Dr Taylor's option were exercised and shares allotted in the names of family: Ms S Taylor (800,000 options), Mr B Taylor & Ms S Doherty (260,000 options) and Ms V Taylor (1,340,000 options).

During the year ended 30 June 2021, no current or former directors and KMP received shares following conversion of performance rights.

During the year ended 30 June 2020, no current or former directors and KMP received shares following conversion of performance rights.

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Options expired during the year

2021

During the year ended 30 June 2021, the following director and KMP options expired:

	Number
Dr M Harris	1,600,000

2020

No options expired during the year.

Directors and KMP relevant interests in securities

Relevant interest in securities during the year and at the date of this report are as follows:

(a) Ordinary shares

	Opening balance	Shares acquired	Shares disposed	Closing balance
Dr C Roberts				
Cabbit Pty Ltd ATF Robwill Trust ¹	16,911,280	1,000,000	-	17,911,280
Dr A Taylor				
A.C.N. 136 437 913 Pty Ltd ATF Taylor Family Trust ²	10,200,000	3,066,660	-	13,266,660
Ms Sally Taylor ³	800,000	-	-	800,000
Dr C Biggin	285,720	133,380	-	419,100
Mr Rob Thomas	550,000	-	-	550,000
Stornaway Nominees Pty Ltd ATF R. Thomas Pension Fund ⁴	300,000	-	-	300,000
Murtoa Flour Mills Pty Ltd ⁵	-	150,000	-	150,000
The Tony McCullough Foundation ⁶	-	25,000	-	25,000
Dr M Harris				
TM Ventures Pty Ltd ⁷	18,788,460	-	-	18,788,460
Boorris Pty Ltd ATF Boorris Trust ⁸	5,975,800	1,840,000	-	7,815,800
Mr R Vickery	100,000	-	-	100,000
Bojac Pty Ltd ATF Viking Super Fund ⁹	40,000	-	-	40,000

1. Dr Roberts is a beneficiary of the Robwill Trust
2. Dr Taylor is a beneficiary of the Taylor Family Trust
3. Ms Taylor is the spouse of Dr Taylor
4. Mr Thomas is a beneficiary of the R. Thomas Pension Fund
5. Mr Thomas is a shareholder of Murtoa Flour Mills Pty Ltd
6. Mr Thomas is Trustee of the Tony McCullough Foundation, a registered charity
7. Dr Harris is a shareholder of TM Ventures Pty Ltd, holding a 33% interest
8. Dr Harris is a beneficiary of Boorris Trust
9. Mr Vickery is a beneficiary of the Viking Super Fund

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DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2021

(b) Unlisted Options

	Opening balance	Issued during the year	Exercised during the year	Expired/assigned	Closing balance	Vesting term	Vested and exercisable at 30 June	Vested and unexercisable at 30 June
Robinson	-	200,000	-	-	200,000	1	-	-
Roberts	1,000,000	200,000	(1,000,000)	-	200,000	1	-	-
Ramdahl	400,000	200,000	-	-	600,000	1	-	-
O'Bryan-Tear	800,000	200,000	-	(100,000)	900,000	1	400,000	-
Harris	4,000,000	300,000	(2,400,000)	(1,600,000)	300,000	2	-	-
Taylor	4,600,000	2,200,000	(4,000,000)	-	2,800,000	2	600,000	-
Biggin	3,400,000	2,200,000	-	-	5,600,000	2	2,400,000	-
Vickery	100,000	640,000	-	-	740,000	2	100,000	-
	14,300,000	6,140,000	7,400,000	1,700,000	11,340,000		3,500,000	-

Vesting terms

1. Non-executive directors (NED) were issued 200,000 options on 17 June 2021 that vest in 4 equal tranches of 50,000 options: at listing on the ASX, and on 13 May 2022, 2023 and 2024 provided the NED remains on the Board of Directors.
2. Executives were issued options twice during the year:
The first options were issued 1 July 2020 and vest after one year of employment (at 1 July 2021). Options were issued to Dr Harris (100,000), Dr Taylor (1,000,000), Dr Biggin (1,000,000) and Mr Vickery (140,000). The second options were issued 18 June 2021 and vest in 4 equal tranches: at listing on the ASX, and on 13 April 2022, 2023 and 2024 provided the executive remains employed at those dates. Options were issued to Dr Harris (200,000), Dr Taylor (1,200,000), Dr Biggin (1,200,000) and Mr Vickery (500,000).

END OF AUDITED REMUNERATION REPORT

CLARITY PHARMACEUTICALS LTD
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Indemnifying officers and auditors

During the financial year the Group paid a premium of \$134,858 (2020: \$14,659) to insure the directors of the Company and the key management personnel of the Group. 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.

Auditor independence and non-audit services

A statement of independence has been provided by the Group's auditor, Grant Thornton, and is attached to this report.

During the year the Group's auditor performed non-audit services being tax advice and preparation of an investigating accountants report in preparation for listing. The provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth), and the Directors are satisfied that the nature, scope and quantum of the non-audit services provided did not compromise auditor independence. The details of the services provided and their costs are as follows:

	\$
Tax compliance services	31,950
Investigating accountants report	45,000
	<hr/> 76,950 <hr/>

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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FOR THE YEAR ENDED 30 JUNE 2021

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

A handwritten signature in blue ink, appearing to read "Alan Taylor", with a stylized flourish at the end.

Dr Alan Taylor
Chairperson
Date: 25 August 2021

Auditor's Independence Declaration

To the Directors of Clarity Pharmaceuticals Ltd

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Clarity Pharmaceuticals Ltd for the year ended 30 June 2021, 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, 25 August 2021

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2021

		2021	2020
		\$	\$
	Notes		
Finance income	6	41,928	59,416
Research and Development Tax Incentive	6	3,171,650	2,486,933
Other income	6	74,813	351,879
Income		3,288,391	2,898,228
Corporate and administration	7	(3,834,226)	(2,820,251)
Research and development	8	(9,675,486)	(7,025,851)
Finance costs		(47)	(5,989)
Loss before income tax		(10,221,368)	(6,953,863)
Income tax expense	19	-	-
Loss for the year from continuing operations		(10,221,368)	(6,953,863)
Loss for the year		(10,221,368)	(6,953,863)
Other comprehensive income			
Exchange differences on translating foreign entity		(1)	600
Total comprehensive income for the period		(10,221,369)	(6,953,263)
Earnings per Share			
Basic, loss for the year attributable to ordinary equity holders	9	(5.8)	(4.8)
Diluted, loss for the year attributable to ordinary equity holders	9	(5.8)	(4.8)

The accompanying notes form part of these financial statements

CLARITY PHARMACEUTICALS LTD
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	Notes	2021 \$	2020 \$
Assets			
Current			
Cash and cash equivalents	10	8,439,068	5,265,490
Financial assets	11	10,500,000	1,000,000
Research & development tax incentive receivable	12	3,199,885	2,497,212
Other receivables	12	172,035	162,421
Prepayments		197,308	128,987
Total current assets		22,508,296	9,054,110
Non-current			
Plant & equipment	13	93,193	49,521
Other financial assets	11	11,380	11,380
Total non-current assets		104,573	60,901
Total assets		22,612,869	9,115,011
Liabilities			
Current			
Trade and other payables	14	1,806,120	588,960
Deferred income	15	80,419	108,687
Employee entitlements	16	364,062	249,297
Total current liabilities		2,250,601	946,944
Non-current			
Employee entitlements	16	84,710	9,150
Total non-current liabilities		84,710	9,150
Total liabilities		2,335,311	956,094
Net assets		20,277,558	8,158,917
Equity			
Share capital	17	44,903,522	23,933,000
Share option reserve	18	4,205,714	3,073,575
Accumulated losses		(28,849,604)	(18,865,585)
Foreign currency translation reserve		17,926	17,927
Total equity		20,277,558	8,158,917

The accompanying notes form part of these financial statements

CLARITY PHARMACEUTICALS LTD
ABN 36 143 005 341

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2021

	SHARE OPTION RESERVE	FOREIGN CURRENCY RESERVE	SHARE CAPITAL	ACCUMU- LATED LOSSES	TOTAL
	\$	\$	\$	\$	\$
<u>Year ended 30 June 2020</u>					
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
<u>Year ended 30 June 2021</u>					
Loss for the year	-	-	-	(10,221,368)	(10,221,368)
Foreign currency translation	-	(1)	-	-	(1)
Total Comprehensive Income	-	(1)	-	(10,221,368)	(10,221,369)
Transfer to share capital for options exercised	(700,731)	-	700,731	-	-
Ordinary shares issued on exercise of options	-	-	150,000	-	150,000
Transfer to retained earnings for options expired	(237,349)	-	-	237,349	-
Issue of share capital	-	-	20,236,143	-	20,236,143
Cost of incomplete capital raise	-	-	(116,352)	-	(116,352)
Employee share-based options	2,070,219	-	-	-	2,070,219
Balance at 30 June 2021	4,205,714	17,926	44,903,522	(28,849,604)	20,277,558

The accompanying notes form part of these financial statements

CLARITY PHARMACEUTICALS LTD
ABN 36 143 005 341
CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 \$	2020 \$
Cash Flows from Operating Activities			
Other income		50,000	50,000
Interest received		43,272	80,730
Research and development incentive received		2,468,977	1,354,930
Grant income		-	526,500
Payments to suppliers and employees		(10,239,277)	(8,836,468)
Interest paid		(47)	(5,989)
Net cash (used in) operating activities	21	(7,677,075)	(6,830,297)
Cash Flows from Investing Activities			
Purchase of plant & equipment		(60,311)	(14,496)
Net cash (used in) investing activities		(60,311)	(14,496)
Cash Flows from Financing Activities			
Proceeds from issue of share capital		20,895,645	4,097,265
Proceeds from unissued share capital		50,000	7,500
Transfer from financial assets		-	3,522,652
Transfer to financial assets		(9,500,000)	(8,273)
Exercise of options		150,000	600,000
Cost of capital raisings – complete and incomplete	17	(681,224)	-
Net cash provided by financing activities		10,914,421	8,219,144
Net increase in cash held		3,177,035	1,374,351
Cash at the beginning of the financial year		5,265,490	3,890,539
Effect of exchange rate changes on cash and cash equivalents		(3,457)	600
Closing cash at the end of the financial year	10	8,439,068	5,265,490

The accompanying notes form part of these financial statements

CLARITY PHARMACEUTICALS LTD
ABN 36 143 005 341
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

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).

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

The consolidated financial statements for the year ended 30 June 2021 were approved and authorised for issue by the Board of Directors on 25 August 2021. The consolidated financial statements can be amended by the Board of Directors after issue.

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 to support research and development activities.

The Group had cash and financial assets of \$104 million at 23 August 2021 following close of the offer of shares for its Initial Public Offering and allotment of shares. Trading in the shares commenced on the ASX on 25 August. Proceeds from the raise should be able to fund the company's operations into 2024.

Accordingly, 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.

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.

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 2020.

During the year, the Group has applied the following new or revised accounting standards issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2020:

- *AASB 2019-1 Amendment to Australian Accounting Standards - References to Conceptual Framework*
- *AASB Interpretation 23 Uncertainty Over Income Tax Treatments*

These did not have any material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

CLARITY PHARMACEUTICALS LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

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 Ltd is an Australian company located in Eveleigh NSW, Australia. The registered office address is Suite 212A/2-4 Cornwallis St, Eveleigh NSW 2015.

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 continues 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.

(b) Basis of consolidation

The Group financial statements consolidate those of the Parent Company and its subsidiaries as of 30 June 2021. 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. One subsidiary, Clarity Pharmaceuticals Europe SA, has a reporting date of 31 December 2020. One subsidiary, Clarity Personnel Inc., has a reporting date of 30 June 2021. All transactions and balances between Group companies are eliminated on consolidation as at 30 June 2021, 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.

(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.

CLARITY PHARMACEUTICALS LTD
ABN 36 143 005 341
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

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 are not yet used for the purpose specified in the grant agreement, are recognised as deferred income liabilities.

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 2021 has been recognised as income for said year however it will not be received until after 30 June 2021 and until after the tax return for the year ending 30 June 2021 is lodged.

(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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting 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 and reflects uncertainty related to income taxes. They are measured at their expected value, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets would be offset only if the Group had a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority on the same entity or group.

CLARITY PHARMACEUTICALS LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

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) 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.

(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.

(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.

CLARITY PHARMACEUTICALS LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

3. Summary of accounting policies continued

(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. Diminishing value basis has been chosen as it most accurately reflects the pattern of economic benefits consumed. 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) 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 fall into this category of financial instruments.

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

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaced AASB 139'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 AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

CLARITY PHARMACEUTICALS LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

3. Summary of accounting policies continued

(m) 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.

(n) Intangible Assets

Research and Development

The dominant purpose of the Group is the development of diagnostic and therapeutic radiopharmaceuticals. The development of such products is preceded by many years of research through clinical trials and other activities. Expenditure on the research phase of projects is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet all of the following recognition requirements:

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Group intends to and has sufficient resources to execute a commercial outcome from the project
- the Group has the ability to derive income from the project, and
- the radiopharmaceuticals will generate probable future economic benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred. Directly attributable costs include employee costs incurred on development along with an appropriate portion of relevant overheads and borrowing costs.

Patents

All patent costs incurred in acquiring and extending patents are expensed as incurred except to the extent such costs relate to projects which satisfy the above requirements for capitalisation.

(o) 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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

3. Summary of accounting policies continued

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.

(p) Segments

The Group is a radiopharmaceutical development group with operations in Australia and the United States. As it has no commercial products it does not derive any commercial revenue. The Group does not currently consider that the risks and returns of the Group are affected by differences in its products or services, the geographical areas in which it operates, or its customers.

Group financial performance is evaluated by the Board of Directors (being the 'Chief Operating Decision Makers (CODM)') based on profit or loss before tax and cash flow for the group as a whole. As such the Group currently operates as one segment – Radiopharmaceutical Development.

(q) 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 was not trading publicly in the year ended 30 June 2021, judgement was also required to determine the share price input for the Black Scholes valuation. The Company determined the share price as the price of the most recent successful capital raising, or the share price where there was sufficient interest from investors to begin capital raising.

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.

CLARITY PHARMACEUTICALS LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

3. Summary of accounting policies continued

Critical accounting estimate – share price pre-public trading – Prior to listing, the Company determined the share price as the price of the most recent successful capital raising, or the share price where there was sufficient interest from investors to begin capital raising.

4. Operating segments

Clarity Pharmaceuticals Ltd and its subsidiaries, Clarity Pharmaceuticals Europe S.A. and Clarity Personnel Inc., operate in only one business segment – Development of Radiopharmaceuticals. The activities of the group principally take place in Australia and the United States. The Group does not have any revenue hence is not able to report revenue by segment. Accordingly, it also does not have any customers. All assets and liabilities of the Group are attributable to the single segment.

5. 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 21	30 Jun 20
Clarity Pharmaceuticals Europe SA	Belgium	Scientific Research & Development	100%	100%
Clarity Personnel Inc.	U. S. A	Provision of US Personnel to the Group	100%	N/A ¹

1. Clarity Personnel Inc. was incorporated in the year ended 30 June 2021

6. Other Income

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

	2021	2020
	\$	\$
Finance income	41,928	59,416
Research and Development Tax Incentive	3,171,650	2,486,933
Grant income		
Department of Industry, Innovation & Science	-	272,312
Belgium Walloon Government	24,813	29,567
Australian Taxation Office Cash Flow Boost	50,000	50,000
	74,813	351,879

The grant received from the Belgium Walloon Government was received by Clarity Pharmaceuticals Europe SA in support of the Group's research and development programs. The grant concluded in November 2020. An unexpended amount of \$80,419 under this grant has been recognised as deferred income.

The Australian Taxation Office Cash Flow Boost was provided by the Australian Federal Government to support small and medium businesses during the economic downturn associated with COVID-19. The Group received \$100,000 in total, all of which has been received.

CLARITY PHARMACEUTICALS LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

7. Corporate and administration

	2021	2020
	\$	\$
Corporate and administration employment costs	(2,797,225)	(1,483,197)
Depreciation	(15,625)	(16,999)
Insurance, professional fees, rent and other	(1,021,376)	(1,320,055)
	<u>(3,834,226)</u>	<u>(2,820,251)</u>

8. Research and development

	2021	2020
	\$	\$
Clinical trials and supporting activities	(5,910,758)	(4,028,200)
Research and development employment costs	(3,291,363)	(2,500,329)
Patents and related costs	(473,365)	(497,322)
	<u>(9,675,486)</u>	<u>(7,025,851)</u>

9. Earnings per share

	2021	2020
	Cents	Cents
Basic earnings (loss) per share ¹	(5.8)	(4.8)
Diluted earnings (loss) per share	(5.8)	(4.8)
Income and share data used in calculations of basic and diluted earnings per share:		
Net (Loss)	<u>(10,221,368)</u>	<u>(6,953,863)</u>
	Number	Number
Weighted average number of Ordinary shares on issue in the calculation of basic earnings per share	176,453,622	146,380,631
Effect of dilutive securities ²	<u>-</u>	<u>-</u>
Adjusted weighted average number of Ordinary shares used in the calculation of diluted earnings per share	<u>176,453,622</u>	<u>146,380,631</u>

1. Based on shares post 20:1 split which took effect on 13 July 2021.

2. At 30 June 2021 there are 26,144,900 (2020 – 23,666,680) share options (expressed on a post-split basis) on issue which have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

CLARITY PHARMACEUTICALS LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

10. Cash and cash equivalents

	2021	2020
	\$	\$
Cash and cash equivalents consist of the following:		
Cash at bank - Australian Dollars	6,101,380	254,650
Term deposits – cash equivalents	-	4,800,000
Cash at bank – US Dollars	2,179,898	-
Cash at bank – Euro	157,790	210,840
	8,439,068	5,265,490

Term deposits with a maturity of less than 3 months from the date of acquisition are presented as cash equivalents.

11. Other financial assets

	2021	2020
	\$	\$
Current		
Term deposits	10,500,000	1,000,000
	10,500,000	1,000,000

Term deposits with a maturity of less than 3 months from the date of acquisition are presented as cash equivalents. Term deposits are measured at face value, with interest recognised as income on an accruals basis.

Non-current		
Security deposit	11,380	11,380
	11,380	11,380

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.

12. Other receivables

Research & development incentive receivable	3,199,885	2,497,212
Consumption taxes receivable	164,136	153,178
Interest receivable	7,899	9,243
	172,035	162,421

All amounts are short-term.

CLARITY PHARMACEUTICALS LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

13. Plant & equipment

	2021	2020
	\$	\$
Equipment	176,174	119,345
Less accumulated depreciation	(82,981)	(69,824)
	<u>93,193</u>	<u>49,521</u>
Balance as at 1 July	49,521	53,285
Additions	60,311	14,495
Disposals	(1,014)	(1,260)
Depreciation	(15,625)	(16,999)
Balance as at 30 June	<u>93,193</u>	<u>49,521</u>

14. Trade & other payables

Trade and other payables recognised consist of the following:

Current:

Trade creditors	228,146	155,940
Sundry creditors	1,231,034	303,247
Payroll liabilities	283,409	71,841
Superannuation payable	63,531	57,932
	<u>1,806,120</u>	<u>588,960</u>

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

Sundry creditors include expenses incurred but not yet paid for capital raising (\$427,567), clinical trials (\$470,093), operations (\$154,110) and corporate activities (\$179,264).

15. Deferred income

Current:

Deferred Income – unexpended grants	80,419	108,687
	<u>80,419</u>	<u>108,687</u>

Deferred income at 30 June 2021 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

16. Employee entitlements

	2021	2020
	\$	\$
Current:		
Annual leave liability	342,699	249,297
Long service leave liability	21,363	-
	364,062	249,297
 Non-Current:		
Long service leave liability	84,710	9,150

The current liability represents the Group's obligations to which employees have a current legal entitlement. It arises from accrued annual leave and long service 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.

17. Equity

Ordinary shares issued and fully paid	45,695,198	23,941,322
Cost of capital raising	(675,324)	(8,322)
Cost of incomplete capital raising	(116,352)	-
Total contributed equity at 30 June	44,903,522	23,933,000

The cost of incomplete capital raising comprises costs incurred related to the IPO, which, at reporting date, was not yet complete. At end of period \$102,130 of the cost of incomplete capital raising was incurred but unpaid.

	2021	2020
	Number	Number
Movement in ordinary shares on issue		
As at 1 July	7,788,704	7,115,553
Issue on exercise of share options	308,666	400,000
Private placement	1,393,543	273,151
As at 30 June	9,490,913	7,788,704
 Expressed in post July 2021 20:1 Share-Split terms	189,818,260	155,774,080

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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

17. Equity continued

At an Extraordinary General Meeting (EGM) of shareholders held on 13 July 2021, it was resolved that all shares in Clarity Pharmaceuticals Ltd be split on the basis that every share on issue be split into twenty shares. The effective date of the share split for both shares and options was 13 July 2021. The number of issued shares at 30 June 2021 was 9,490,913. On 13 July 2021 pre-share split it was 9,520,913. Following share split on 13 July 2021 shares on issue totalled 190,418,260.

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 (2020 – nil).

18. Share option reserve

	2021	2020
	\$	\$
Balance as at 1 July	3,073,575	2,157,205
Share options expensed	2,070,219	1,188,997
Options exercised	(700,731)	(272,627)
Options expired	(237,349)	-
Balance as at 30 June	<u>4,205,714</u>	<u>3,073,575</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 (see note 3q).

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

	1 Jul 2020	26 Aug 2020	15 Dec 20	4 May 21
Grant Date				
Share Price	\$15.00	\$15.00	\$15.00	\$15.00
Exercise Price	\$18.75	\$18.75	\$18.75	\$18.75
Volatility Rate	84.97%	78.32%	73.02%	84.08%
Options Life	5 years	5 years	3 years	3 years
Risk-free interest rate	0.413%	0.415%	0.119%	0.111%

Grant Date	10 May 21	17 Jun 21
Share Price	\$15.00	\$15.00
Exercise Price	\$18.75	\$18.75
Volatility Rate	84.83%/88.40%	84.00%
Options Life	3 / 3.5 years	3.5 years
Risk-free interest rate	0.099%/0.198%	0.110%

The volatility rate was determined by applying the median share price volatility at grant date of comparable Australian listed biotech companies. Share prices were determined by the Board of Directors. No active market existed for the shares.

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NOTES TO THE FINANCIAL STATEMENTS
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18. Share option reserve continued

Options on issue at 30 June 2021 comprise:

Expiry Date	Balance 1 Jul 20	Weighted Average Exercise Price	Granted during year	Expired during year	Exercised during year	Balance 30 June 2021	Weighted Average Exercise Price
1 Jul 20	20,000	\$2.500	-	(20,000)	-	-	\$2.500
30 Sep 20	20,000	\$2.500	-	(20,000)	-	-	\$2.500
31 Dec 20	20,000	\$2.500	-	(16,000)	(4,000)	-	\$2.500
27 Feb 21	400,000	\$3.500	-	(80,000)	(320,000)	-	\$3.500
1 Jul 21	90,000	\$2.500	-	-	(60,000)	30,000	\$2.500
17 Jan 22	10,000	\$4.400	-	-	-	10,000	\$4.400
28 Apr 22	40,000	\$4.400	-	-	-	40,000	\$4.400
1 Jul 22	100,000	\$4.400	-	-	-	100,000	\$4.400
1 Nov 22	10,000	\$4.400	-	-	-	10,000	\$4.400
1 Jan 23	20,000	\$4.400	-	-	-	20,000	\$4.400
16 Feb 23	53,334	\$4.400	-	-	-	53,334	\$4.400
1 Jul 23	130,000	\$4.400	-	-	-	130,000	\$4.400
3 Dec 23	10,000	\$12.100	-	-	-	10,000	\$12.100
10 Dec 23	10,000	\$12.100	-	-	-	10,000	\$12.100
15 Dec 23	-	\$22.500	45,911 ¹	-	-	45,911	\$22.500
21 Mar 24	40,000	\$12.100	-	-	-	40,000	\$12.100
5 Aug 24	110,000	\$12.100	-	-	-	110,000	\$12.100
1 Oct 24	50,000	\$12.100	-	-	-	50,000	\$12.100
21 Oct 24	5,000	\$12.100	-	-	-	5,000	\$12.100
1 Dec 24	10,000	\$12.100	-	-	-	10,000	\$12.100
18 Dec 24	-	\$16.500	355,000 ²	-	-	355,000	\$16.500
1 Mar 25	10,000	\$18.750	-	-	-	10,000	\$18.750
2 Mar 25	20,000	\$18.750	-	-	-	20,000	\$18.750
1 Jun 25	5,000	\$18.750	-	-	-	5,000	\$18.750
1 Jul 25	-	\$18.750	183,000 ³	(5,000)	-	178,000	\$18.750
26 Aug 25	-	\$18.750	5,000 ³	-	-	5,000	\$18.750
4 May 26	-	\$18.750	10,000 ³	-	-	10,000	\$18.750
10 May 26	-	\$18.750	50,000 ³	-	-	50,000	\$18.750
	1,183,334	\$5.809	648,911	(141,000)	(384,000)	1,307,245	\$12.722

Total expressed in post July 2021 20:1 Share-Split terms:

23,666,680	\$0.48	12,978,220	(2,820,000)	(7,680,000)	26,144,900	\$1.06
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1. Options vest at their grant date.
2. Options vest in 4 equal tranches: at listing on the ASX, and on 13 April 2022, 2023 and 2024, provided the grantee remains in their role until those dates.
3. Option vest 1 year after their grant date, provided the grantee remains in their role until those dates.

The weighted average share price per share on all the dates of exercise was \$15.00.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

19. Income tax

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:

	2021	2020
	\$	\$
Result before income tax	(10,221,368)	(6,953,863)
Prima facie tax payable on (loss) before income tax at 26% (2020 – 27.5%)	(2,657,556)	(1,912,312)
Add: Tax effect of:		
Non-deductible research and development expense subject to R&D tax incentive	1,912,575	1,558,561
Non-deductible share-based payment	538,257	326,974
Less: Tax effect of:		
Research & development incentive	(3,171,650)	(2,486,933)
Other differences	51,757	28,747
Tax effect of losses not brought to account	3,326,617	2,484,962
Income tax benefit attributable to loss before income tax	-	-
Unused tax losses for which no tax loss has been recognised as a deferred tax asset:	8,071,038	4,744,421
Tax effect:		
Australia (26%)	2,098,470	1,425,469
Europe (20%)	24,881	19,213
U. S. A.	-	N/A

Unused tax losses for Clarity Pharmaceuticals Ltd at 30 June 2020 has been re-stated from prior year following lodgement of the tax return for that year.

The benefit from tax losses will only be obtained if:

- (i) Clarity Pharmaceuticals Ltd 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

20. Employee remuneration

(a) Employee benefits expense

Expenses recognised for employee benefits are analysed below:

	2021	2020
	\$	\$
Wages, salaries	3,230,076	2,266,119
Superannuation costs	228,978	243,709
Share-based payments	2,070,219	1,188,997
Other employee expenses	441,590	284,701
Employee benefits expense	5,970,863	3,983,526

(b) Share-based employee remuneration

As at 30 June 2021, 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 \$2,070,219 (2020 - \$1,188,997) 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.

21. Cash flow statement reconciliation

	2021	2020
	\$	\$
Reconciliation of net loss after tax to net cash flows from operations		
Loss from ordinary activities after Income Tax	(10,221,368)	(6,953,863)
Loss of sale of fixed assets	1,014	1,260
Non-Cash items in Total Comprehensive Income:		
Depreciation expense	15,625	16,999
Share option expense	2,070,219	1,188,997
Changes in Assets and Liabilities:	3,457	
Unrealised currency (gain)/loss		-
(Increase) in Trade and Other Receivables	(712,289)	(923,924)
Decrease/(Increase) in Prepayments	(68,321)	28,025
(Decrease)/Increase in Trade and Other Payables ¹	1,072,531	(245,309)
(Decrease)/Increase in Deferred Income	(28,268)	(37,801)
Increase in Provisions	190,325	95,319
Cash Flow from Operations	(7,677,075)	(6,830,297)

1. Excluding \$144,629 in equity related items which are non-operating (2020 - \$7,500).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

22. Financial instruments

(a) Assets

	2021	2020
	\$	\$
Current assets		
Financial assets:		
Cash at bank	8,439,068	5,265,490
Term deposits	10,500,000	1,000,000
Total financial assets	18,939,068	6,265,490
Non-current assets		
Financial assets:		
Other financial assets	11,380	11,380
Total financial assets	11,380	11,380
Financial assets maturity analysis		
Less than 30 days	5,939,068	2,265,490
31 - 60 days	-	1,500,000
61 – 90 days	1,500,000	1,500,000
More than 90 days	11,500,000	1,000,000
More than 1 year	-	-
Balance at 30 June	18,939,068	6,265,490

Fair value and credit risk

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.

(b) Current liabilities

	2021	2020
	\$	\$
Financial liabilities:		
Trade & other payables	1,426,281	459,187
Total financial liabilities	1,426,281	459,187
Financial liabilities maturity analysis		
Less than 1 year	1,426,281	459,187
Balance at 30 June	1,426,281	459,187

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.

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22. Financial instruments continued

(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 Ltd is not exposed to any price risk from its operations of radiopharmaceuticals.

(e) Foreign currency risk

Clarity Pharmaceuticals Ltd is exposed to foreign currency risk, with 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 Ltd manages liquidity risk by monitoring cash flows and ensuring that adequate cash reserves are maintained.

(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
	2021	Less than 1 Year	bearing
	\$	2021	2021
		\$	\$
Financial assets:			
Cash and cash equivalents	5,939,068	13,000,000	-
Security deposits	-	-	11,380
Total financial assets	5,939,068	13,000,000	11,380
Financial liabilities:			
Trade and other payables	-	-	1,426,281
Total financial liabilities	-	-	1,426,281

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NOTES TO THE FINANCIAL STATEMENTS
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22. Financial instruments continued

(h) Sensitivity analysis

The group has performed a sensitivity analysis relating to its exposure to changes in interest and foreign exchange rates at balance date. This sensitivity analysis demonstrates the effect on current year results and equity which could result from a change in these risks.

		2021 \$	2020 \$
Increase or decrease in interest rate by 1% - change in profit and equity	+/-	189,391	62,655
Increase or decrease in USD/AUD foreign exchange rate by 5 cents - change in profit and equity	+/-	85,521	44,527

The above sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

23. Related party transactions

Share transactions of directors

Details of directors' holdings and transaction in equity securities of the group are detailed in the Remuneration Report contained in the Directors' Report.

Other transactions with directors

Directors receive a fixed director's fee. If any directors perform additional services for the Group they are paid a fee based on normal commercial terms. Any payments are detailed in the Remuneration Report contained in the Directors' Report.

Transactions with directors of subsidiaries

Randall Pratt is a director of Clarity Personnel Inc. which was incorporated in May 2021. He is also a Partner of Life Science Legal LLC, which provides legal services to the Group. During the year Life Science Legal received fees from the group totalling \$31,481 (2020 - \$24,829). All fees were charged on normal commercial terms. Mr Pratt did not receive any payment for his services as director of Clarity Personnel Inc.

Transactions with key management personnel

Key management personnel received remuneration in the form of wages and salaries, bonuses, employment benefits including superannuation and options. Any payments are detailed in the Remuneration Report contained in the Directors' Report.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

24. Auditors' remuneration

	2021	2020
	\$	\$
Audit of financial report	96,500	62,217

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

Tax compliance and advisory	31,950	31,240
Corporate Advisory	45,000	73,149
	76,950	104,389

25. Commitment & contingencies

The Company has intellectual property that is either licensed or assigned from the University of Melbourne or the Australian Nuclear Science and Technology Organisation, representing contingent liabilities totalling \$11,192,500 (2020 - \$5,910,000). These contingent liabilities are intellectual property licence and assignment milestones payments which are dependent upon the success of the Group's clinical research, as well as future decisions regarding the clinical focus of the Company and are therefore not recognised in the statement of financial position. Milestones for each intellectual property agreement are for various clinical milestones, from filing regulatory applications to conduct clinical trials to entering Phase III trials, along with commencement of sales of a radiopharmaceutical agent. It is anticipated that some milestones may be reached in the year ending 30 June 2022 which will result in payments to licensors totalling \$170,000 (2020 -\$60,000).

26. Parent entity information

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

The Parent Entity has not entered a deed of cross guarantee. Contingent liabilities for the Parent Entity are the same as those for the Group, noted in Note 25. The Parent Entity uses the same accounting policies as the Group.

Statement of financial position

Current assets	11,369,975	8,836,506
Total assets	22,412,061	9,036,680
Current liabilities	(163,802)	(590,891)
Total liabilities	(2,100,820)	(849,338)
Net assets	20,311,241	8,187,342

Issued capital	44,903,522	23,933,000
Share option reserve	4,205,714	3,073,575
Retained losses	(28,797,995)	(18,819,233)
Total equity	20,311,241	8,187,342

Statement of profit or loss and other comprehensive income

Loss for the year	9,849,464	6,939,717
Total comprehensive income	(10,216,113)	(6,939,717)

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NOTES TO THE FINANCIAL STATEMENTS
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27. Post-reporting date events

On 1 July 2021, 30,000 options with an exercise price of \$2.50 each were exercised for a total cash consideration of \$75,000.

At an Extraordinary General Meeting (EGM) of shareholders held on 13 July 2021, it was resolved that all shares in Clarity Pharmaceuticals Ltd be split on the basis that every share on issue be split into twenty shares. The effective date of the share split for both shares and options was 13 July 2021. The number of issued shares at 30 June 2021 was 9,490,913. On 13 July 2021 pre-share split it was 9,520,913. Following share split on 13 July 2021 shares on issue totalled 190,418,260.

At the EGM of shareholders held 13 July 2021, it was also resolved that Clarity Pharmaceuticals Ltd would pursue an initial public offering on the Australian Securities Exchange (ASX). It was also resolved that the Company would adopt a new constitution on listing on the ASX.

The Group lodged a Prospectus with ASIC on 16 July 2021 seeking to list on the ASX and raise \$92 million through the issue of 65,714,286 shares at \$1.40 each. As a consequence the Group listed on the ASX on 25 August 2021 with ASX code CU6. The Group received approximately \$86.6 million in net proceeds from the IPO after the payment of fees of \$5.4 million. The Group lodged a Supplementary Prospectus with ASIC on 18 August 2021. The capital raised in the IPO will predominantly be used to implement the Group's clinical development strategy and expand its product portfolio.

Due to an outbreak of COVID-19 the greater Sydney region, where the Group is headquartered, was subjected to Government mandated restrictions, including a Stay At Home order, on 26 June 2021. The restrictions remain in place at the date of this report. This event has had minimal effect on operations. Employees have been able to continue to work from home with minimal disruption. Clinical trial activities and product supply have not been significantly impacted. The Group is not aware of any specific effects from these restrictions, or the COVID-19 pandemic generally, which have or may significantly affect its operations, results or state of affairs in future financial years.

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:

- the operation of the Group;
- the results of those operations; or
- the state of affairs of the Group;

in future financial years.

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Directors' Declaration
FOR THE YEAR ENDED 30 JUNE 2021

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, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, including
 - I. Giving a true and fair view of its financial position as at 30 June 2021 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.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors.



Dr Alan Taylor
Chairperson
Dated this 25th day of August 2021

Independent Auditor's Report

To the Members of Clarity Pharmaceuticals Ltd

Report on the audit of the financial report

Opinion

We have audited the financial report of Clarity Pharmaceuticals Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, 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 2021 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="113 492 782 571">Research and development tax incentive (Note 6 & Note 12)</p> <p data-bbox="113 582 782 907">The Group receives a research and development (R&D) refundable tax offset from the Australian government which represents 43.5 cents in each dollar of eligible annual R&D expenditure, if its turnover is less than \$20 million per annum. Registration of R&D Activities Application is filed with AusIndustry in the following financial year and, based on this filing, the Group receives the incentive in cash. Management performed a detailed review of the Group's total R&D expenditure to estimate the refundable tax offset receivable under the R&D tax incentive legislation.</p> <p data-bbox="113 918 782 1052">This area is a key audit matter due to the size of the accrual and the degree of judgment and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.</p>	<p data-bbox="782 582 1460 616">Our procedures included, amongst others:</p> <ul data-bbox="782 627 1460 1397" style="list-style-type: none"> <li data-bbox="782 627 1460 705">• obtaining through discussions with management, an understanding of the process to estimate the claim; <li data-bbox="782 716 1460 1008">• utilising an internal R&D tax specialist to; <ul data-bbox="845 761 1460 1008" style="list-style-type: none"> <li data-bbox="845 761 1460 862">○ review the expenditure methodology employed by management for consistency with the R&D tax offset rules; and <li data-bbox="845 873 1460 1008">○ consider the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria; <li data-bbox="782 1019 1460 1086">• comparing the nature of the R&D expenditure included in the current year estimate to the prior year claim; <li data-bbox="782 1097 1460 1220">• selecting a sample of R&D expenditure and agreed to supporting documentation to ensure appropriate classification, validity of the claimed amount and eligibility against the R&D tax incentive scheme criteria; <li data-bbox="782 1232 1460 1310">• inspecting copies of relevant correspondence with AusIndustry and the ATO related to the claims; and <li data-bbox="782 1321 1460 1397">• assessing the appropriateness of the financial statement disclosures.

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 2021, 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 we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors for the financial report

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

In preparing the financial report, the Directors are responsible for assessing the 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: https://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report


Opinion on the remuneration report

We have audited the Remuneration Report included in pages 11 to 24 of the Directors' report for the year ended 30 June 2021.


In our opinion, the Remuneration Report of Clarity Pharmaceuticals Ltd, for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



R J Isbell
Partner – Audit & Assurance

Sydney, 25 August 2021