

Appendix 4D

Preliminary financial statements for the half-year ended 31 December 2021

as required by ASX listing rule 4.2A

1. Company details

Name of entity:	Clarity Pharmaceuticals Ltd
ABN:	36 143 005 341
Reporting period:	Half Year ended 31 December 2021
Previous period:	Half Year ended 31 December 2020

2. Results for announcement to the market

				\$'000
Revenue from ordinary activities	up	0%	to	0
Loss from ordinary activities after tax attributable to the owners of Clarity Pharmaceuticals Ltd	up	182%	to	(13,712)
Loss for the year attributable to the owners of Clarity Pharmaceuticals Ltd	up	182%	to	(13,712)

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 \$13,712,399. The result includes a share-based payments expense of \$6,784,556 relating to share options issued to China Grand Pharmaceutical and Healthcare Holdings Limited.

Additional information supporting the Appendix 4D disclosure requirements can be found in the Directors' Report and the consolidated financial statements for the half-year ended 31 December 2021.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	39.5	10.7

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

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Appendix 4D

Preliminary financial statements for the half-year ended 31 December 2021

as required by ASX listing rule 4.2A

4. Control gained over entities

Not applicable

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):

This report is based on the consolidated financial statements for the half-year ended 31 December 2021 which have been reviewed by Grant Thornton who have issued an unmodified opinion.

8. Attachments

Details of attachments (if any):

The Half Year Financial Statements of Clarity Pharmaceuticals Ltd for the period ended 31 December 2021 are attached.

9. Signed

As authorised by the Board of Directors



Robert Vickery
Company Secretary
28th February 2022

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FINANCIAL REPORT

OF

CLARITY PHARMACEUTICALS LTD

ABN 36 143 005 341

FOR THE HALF YEAR ENDED

31 DECEMBER 2021

CLARITY PHARMACEUTICALS LTD

ABN 36 143 005 341

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

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CLARITY PHARMACEUTICALS LTD

ABN 36 143 005 341

DIRECTORS' REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 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 Half Year ended 31 December 2021.

Director details

The following persons were Directors of Clarity Pharmaceuticals during the half year and until the date of this report:

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)

Result

The loss for the half year was \$13.7 million (2020: \$4.9 million loss). This significant increase was in part due to a one-off share-based expense of \$6.8 million for options granted to China Grand Pharmaceutical and Healthcare Holdings Limited in July 2021.

Statement of Financial Position

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

- Liquid assets of \$96.7 million (30 June 2021 \$18.9 million) comprising cash on hand as at 31 December 2021 of \$48.2 million (30 June 2021 \$8.4 million) and term deposits of \$48.5 million (30 June 2021 \$10.5 million).
- Net assets increased to \$101.2 million from \$20.3 million at 30 June 2021.

The Board believes the Group is well placed to support its programs throughout 2022.

Review of operations

Corporate

On 1 July 2021 Clarity Pharmaceuticals Ltd ("Clarity" or the "Group") signed a deed with China Grand Pharmaceutical and Healthcare Holdings Limited (China Grand) for 25,543,912 options (on a post-split basis) exercisable to 25,543,912 shares.

The option deed included a provision to negotiate, on an exclusive basis until expiry of the deed, a proposal for the Group to grant China Grand a licence of the right to develop, manufacture and commercialise one or more of Clarity's products in the Greater China territory (being Mainland China, Hong Kong (SAR), Macau (SAR) and Taiwan). The options lapsed and were cancelled at 5pm on 25 February 2022, and the exclusivity period for the licensing negotiations also expired at that time.

Following an Extraordinary General Meeting (EGM) of shareholders on 13 July 2021, shares in Clarity were 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

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number of issued shares at 30 June 2021 was 9,490,913. On 13 July 2021 pre-share split, the number of issued shares was 9,520,913. Following the share split on 13 July 2021, shares on issue totalled 190,418,260.

The Group lodged a Prospectus with ASIC on 16 July 2021 (and a Supplementary Prospectus on 18 August 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 \$85.4 million in net proceeds from the IPO after the payment of fees of \$6.6 million.

Following period end, Clarity received a \$3.26m R&D tax incentive refund. This amount was presented as a receivable in the balance sheet as at 31 December 2021.

Clinical

Clarity generated strong results in the clinical development of its Targeted Copper Theranostics (TCT) platform during the reporting period. Clarity's pipeline includes the following products and indications of cancer, to date:

- SARTATE™ Neuroblastoma
 - CL04 trial: for the treatment of neuroblastoma, Phase I/IIa (US)
- SARTATE™ NETs
 - DISCO trial: for the diagnosis of neuroendocrine tumours (NETs), Phase II (Australia)
- SAR-Bombesin
 - C-BOBCAT trial: a pan-cancer treatment product, including the treatment of breast cancer and prostate cancer, Phase I - trial closed (Australia)
- SAR-bisPSMA:
 - SECuRE trial: for the treatment of PSMA-expressing metastatic castrate resistant prostate cancer (mCRPC), Phase I/IIa (US);
 - PROPELLER trial: for imaging of participants with untreated, confirmed prostate cancer, planned for radical prostatectomy, Phase I (Australia);
 - COBRA trial: for imaging of participants with biochemical recurrence (BCR) of prostate cancer following definitive therapy, Phase I/II (US).

SAR-bisPSMA

Clarity is currently progressing three confirmed trials in prostate cancer with the optimised PSMA agent, SAR-bisPSMA. In July 2021, the Group commenced recruitment in two clinical trials, SECuRE and PROPELLER. Since then, the dosimetry phase has been completed in the SECuRE trial for the treatment of prostate cancer (NCT04868604) and the recruitment milestone of 50% was achieved in the PROPELLER trial for the imaging of participants with confirmed prostate cancer prior to radical prostatectomy (NCT04839367). In February 2022, Clarity received confirmation from the US Food and Drug Administration (FDA) that its diagnostic US-based COBRA trial may proceed in participants with biochemical recurrence of prostate cancer. The Group anticipates commencing recruitment in the COBRA trial in the second quarter of CY2022.

SARTATE™

Clarity's theranostic ⁶⁴Cu/⁶⁷Cu SARTATE™ neuroblastoma trial (NCT04023331) is progressing well in the US at Memorial Sloan Kettering Cancer Center in New York. In January 2022, Clarity completed cohort 1 in three participants with neuroblastoma, who received therapy with ⁶⁷Cu SARTATE™ at a dose of 75MBq/kg body weight. No dose limiting toxicities were reported in this cohort and the Safety Review Committee has recommended that the trial continue with the dose escalation phase as planned. Recruitment is open at all five clinical sites in the US at the increased cohort 2 dose level of 175MBq/kg body weight. Additional therapy cycles of ⁶⁷Cu SARTATE™ have been requested by clinical sites and administered to participants in cohort 1.

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In February 2022, the first participant in cohort 2 has been administered with ⁶⁷Cu SARTATE™ at an increased dose of 175MBq/kg body weight. The increase in administered activity between cohorts 1 and 2 is significant in radiation-sensitive disease, such as neuroblastoma. Cohort 2 will see administered activities more than double in comparison to cohort 1. Clarity looks forward to continuing recruitment into cohort 2, building upon the encouraging initial data from cohort 1 and further gathering evidence of diagnostic and therapeutic benefits of the SARTATE™ product for the treatment of children with neuroblastoma.

SAR-Bombesin

The diagnostic imaging trial of ⁶⁴Cu SAR-Bombesin (C-BOBCAT), led by Prof Louise Emmett at St Vincent's Hospital Sydney, closed early in October 2021. The diagnostic program with ⁶⁴Cu SAR-Bombesin generated promising results and paved the way for Clarity's US-based clinical trials of this product to proceed in 2022. The C-BOBCAT trial recruited 7 participants with ER/PR positive metastatic breast cancer. A number of participants were also recruited and treated with ⁶⁴Cu SAR-Bombesin under the Therapeutic Goods Administration (TGA) Special Access Scheme (SAS) in both breast and prostate cancer patients.

Operations and Supply of Radiopharmaceuticals

The manufacturing and logistics are critical for the supply of radiopharmaceuticals. To support clinical growth and future commercialisation, Clarity has been actively extending its manufacturing and logistical footprint in the US by signing a number of key supply and distribution agreements, and also securing key memberships, including the following agreements since 1 July 2021:

- Agreement with Cardinal Health covering cGMP manufacture and distribution of Clarity's TCT on 2 December 2021
- Agreement with Evergreen Theragnostics, Inc. covering cGMP manufacture and distribution of Clarity's TCT on 30 September 2021
- Membership and a Board position on the Council on Radionuclides and Radiopharmaceuticals, Inc (CORAR) on 22 September 2021.

These agreements and membership will support the rollout of the TCT platform and getting "ready-to-use" TCT products to patients at any location in the US.

Intellectual Property

Clarity has an extensive patent portfolio generated from a patent strategy designed to cover its SAR Technology platform, its existing radiopharmaceutical products utilising the technology, as well as a 'Discovery Program' focused on developing new products and new intellectual property for a range of indications of cancer in all major international jurisdictions.

Most recently, Clarity focused on significantly strengthening patent protection of its optimised Prostate Specific Antigen (PSMA) targeting agent, SAR-bisPSMA, as the Group entered two clinical trials in prostate cancer with this product in July 2021, SECURE and PROPELLER, and received a Study May Proceed letter from the US FDA for a diagnostic COBRA trial in February 2022. In November, the patent application covering formulations of SAR-bisPSMA entered the national phase in multiple jurisdictions, including the USA, Europe and China.

Clarity continues to expand, improve and support its portfolio with the filing of six provisional patents during the reporting period, while moving other patent applications ahead through the various stages of the patenting process. The patent portfolio currently includes seventeen active patent families.

Personnel

Clarity continues to build an exceptional team, including the Board of Directors and Scientific Advisory Board, who deliver a unique range of skills and expertise together with extensive experience in the

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global radiopharmaceutical market. In the reporting period, the Group expanded its clinical, regulatory and operations teams in keeping with anticipated growth in the clinical programs. Key additions include Mr Rob Thomas who joined the Group's Board of Directors on 25 August 2021, bringing a wealth of experience in capital markets and corporate governance, and Dr Willie Regits as a Senior Director, Supply Chain and Corporate Radiation Safety Officer in the US.

Events arising since the end of the reporting period

On 25 February 2022 an option deed with China Grand for 25,543,912 options exercisable into fully paid ordinary shares lapsed and were cancelled without the options being exercised.

On 3 February 2022 Clarity received a R&D tax incentive refund of \$3.3 million.

Aside from the above there are no matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

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

Auditor's Independence Declaration

A statement of independence has been provided by our auditors, Grant Thornton and is included at page 5.

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



Dr Alan Taylor
Chairperson
Date: 28 February 2022

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 review of Clarity Pharmaceuticals Ltd for the half-year ended 31 December 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 review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.


Grant Thornton Audit Pty Ltd
Chartered Accountants


R J Isbell
Partner – Audit & Assurance

Sydney, 28 February 2022

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

		December 2021 \$	December 2020 \$
	Notes		
Finance income		26,183	24,551
Research and Development Tax Incentive	5	2,807,272	1,306,373
Other income	5	-	75,375
Income		2,833,455	1,406,299
Corporate and administration	6	(9,198,126)	(1,652,109)
Research and development	7	(7,342,263)	(4,609,576)
Finance costs		-	(48)
Loss before income tax		(13,706,934)	(4,855,434)
Income tax expense		(5,465)	-
Loss for the period from continuing operations		(13,712,399)	(4,855,434)
Loss for the period		(13,712,399)	(4,855,434)
Other comprehensive income			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translating foreign entities		1,967	(2,811)
Total comprehensive income for the period		(13,710,432)	(4,858,245)
Earnings per Share			
Basic, loss for the period attributable to ordinary equity holders	8	(5.7)	(3.2)
Diluted, loss for the period attributable to ordinary equity holders	8	(5.7)	(3.2)

The accompanying notes form part of these financial statements

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CLARITY PHARMACEUTICALS LTD

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	December 2021 \$	June 2021 \$
Assets			
Current			
Cash and cash equivalents	9	48,164,409	8,439,068
Other financial assets	10	48,500,000	10,500,000
Research & development tax incentive receivable	11	6,007,157	3,199,885
Other receivables	11	254,980	172,035
Prepayments		743,347	197,308
Total current assets		103,669,893	22,508,296
Non-current			
Plant & equipment	12	83,955	93,193
Other financial assets	10	11,745	11,380
Total non-current assets		95,700	104,573
Total assets		103,765,593	22,612,869
Liabilities			
Current			
Trade and other payables	13	1,984,610	1,806,120
Deferred income		-	80,419
Employee entitlements	14	579,136	364,062
Total current liabilities		2,563,746	2,250,601
Non-current			
Employee entitlements	14	53,423	84,710
Total non-current liabilities		53,243	84,710
Total liabilities		2,617,169	2,335,311
Net assets		101,148,424	20,277,558
Equity			
Share capital	15	131,586,760	44,903,522
Share option reserve	16	12,103,774	4,205,714
Accumulated losses		(42,562,003)	(28,849,604)
Foreign currency translation reserve		19,893	17,926
Total equity		101,148,424	20,277,558

The accompanying notes form part of these financial statements

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2021**

	SHARE OPTION RESERVE	FOREIGN CURRENCY RESERVE	SHARE CAPITAL	ACCUMU- LATED LOSSES	TOTAL
	\$	\$	\$	\$	\$
Half year ended 31 December 2020					
Balance at 1 July 2020	3,073,575	17,927	23,933,000	(18,865,585)	8,158,917
Loss for the period	-	-	-	(4,855,434)	(4,855,434)
Foreign currency translation	-	(2,811)	-	-	(2,811)
Total Comprehensive Income	-	(2,811)	-	(4,855,434)	(4,858,245)
Transfer to share capital for options exercised	(612,960)	-	612,960	-	-
Transfer to retained earnings for options expired	(60,071)	-	-	60,071	-
Issue of share capital	-	-	20,903,145	-	20,903,145
Capital raising costs	-	-	(677,002)	-	(677,002)
Share-based options - corporate advisor	253,337	-	-	-	253,337
Share-based options - employee and consultant	895,287	-	-	-	895,287
Balance at 31 December 2020	3,549,168	15,116	44,772,103	(23,660,948)	24,675,439
Half year ended 31 December 2021					
Balance at 1 July 2021	4,205,714	17,926	44,903,522	(28,849,604)	20,277,558
Loss for the period	-	-	-	(13,712,399)	(13,712,399)
Foreign currency translation	-	1,967	-	-	1,967
Total Comprehensive Income	-	1,967	-	(13,712,399)	(13,710,432)
Transfer to share capital for options exercised	(60,775)	-	60,775	-	-
Ordinary shares issued on exercise of options	-	-	119,000	-	119,000
Transfer to retained earnings for options expired	-	-	-	-	-
Issue of share capital	-	-	92,000,000	-	92,000,000
Capital raising costs	-	-	(5,496,537)	-	(5,496,537)
Share-based options – China Grand	6,784,556	-	-	-	6,784,556
Share-based options - employee and consultant	1,174,279	-	-	-	1,174,279
Balance at 31 December 2021	12,103,774	19,893	131,586,760	(42,562,003)	101,148,424

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

Notes	December 2021 \$	December 2020 \$
Cash Flows from Operating Activities		
Other income	-	50,000
Interest received	16,257	27,416
Payments to suppliers and employees	(8,752,972)	(4,079,301)
Income taxes paid	(5,465)	-
Interest paid	-	(48)
Net cash (used in) operating activities	(8,742,180)	(4,001,933)
Cash Flows from Investing Activities		
Transfer to financial assets	(38,000,365)	(10,500,000)
Purchase of plant & equipment	(3,273)	(3,382)
Net cash (used in) investing activities	(38,003,638)	(10,503,382)
Cash Flows from Financing Activities		
Proceeds from issue of share capital	92,000,000	20,895,645
Exercise of options	69,000	-
Cost of capital raising	(5,598,667)	(667,003)
Net cash provided by financing activities	86,470,333	20,228,642
Net increase in cash held	39,724,515	5,723,327
Cash at the beginning of the financial year	8,439,068	5,265,490
Effect of exchange rate changes on cash and cash equivalents	826	(2,811)
Closing cash at the end of the period	48,164,409	10,986,006

The accompanying notes form part of these financial statements

CLARITY PHARMACEUTICALS LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021**

1. General information and statement of compliance

This half-year financial report is a general-purpose condensed interim financial report that has been prepared in accordance with Australian Accounting Standard AASB 134; 'Interim Financial Reporting' and other authoritative pronouncements of the Australian Accounting Standards Board.

The half-year report does not include full disclosure of the type normally included in an annual financial report. The half-year financial report should be read in conjunction with the Annual Financial Report of Clarity Pharmaceuticals Ltd (the Group) as at 30 June 2021.

Except as described below, the accounting policies applied by the Group in this half-year financial report are the same as those applied by the Group in the financial report as at and for the year ended 30 June 2021.

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.

On 25 August 2021 the Group listed on the ASX following completion of an Initial Public Offering raising \$92.0 million (\$85.4 million in net proceeds after payment of fees of \$6.6 million). The Group had cash and financial assets of \$97.5 million at 25 February 2022 which is forecast to be able to fund the company's operations into 2024, based on the present forecast clinical trial programs.

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.

COVID-19 Pandemic

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

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

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

Notwithstanding that the pandemic has caused some disruption to the Group's operations, it was concluded that no change is required regarding recognition of assets and liabilities or to disclosures about 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 above.

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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 2021. In the Consolidated Statement of Profit or Loss and Other Comprehensive Income amounts for the period ending 31 December 2020 have been re-categorised to reflect reporting by function consistent with 30 June and 31 December 2021.

3. Operating segments

Clarity Pharmaceuticals Ltd and its subsidiaries 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.

4. Interests in subsidiaries

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

Name of the Subsidiary	Country of Incorporation and principal place of business	Principal Activity	Proportion of ownership interests held by the group	
			31 Dec 21	30 Jun 21
Clarity Pharmaceuticals Europe SA	Belgium	Scientific Research & Development	100%	100%
Clarity Personnel Inc.	U. S. A	Provision of US Personnel to the Group	100%	100%

5. Other Income

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

	Dec 2021	Dec 2020
	\$	\$
Finance income	26,183	24,551
Research and Development Tax Incentive	2,807,272	1,306,373
Grant income		
Belgium Walloon Government	-	25,375
Australian Taxation Office Cash Flow Boost	-	50,000
	2,833,455	1,406,299

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NOTES TO THE FINANCIAL STATEMENTS
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6. Corporate and administration

	Dec 2021	Dec 2020
	\$	\$
Corporate and administration employment costs	(1,160,314)	(1,073,217)
Depreciation	(12,510)	(6,737)
Share-based payments to third parties		
Corporate Advisors	-	(253,337)
China Grand	(6,784,556)	-
IPO-related costs	(656,489)	-
Insurance, professional fees, rent and other	(584,257)	(318,818)
	<u>(9,198,126)</u>	<u>(1,652,109)</u>

Details of share-based payments to China Grand can be found in note 16.

IPO-related costs include costs associated with preparation of the IPO not deducted from equity, including legal fees (\$293,820) and listing fees (\$307,810).

7. Research and development

	Dec 2021	Dec 2020
	\$	\$
Clinical trials and supporting activities	(4,669,303)	(2,441,180)
Research and development employment costs	(2,347,597)	(1,899,986)
Patents and related costs	(325,363)	(268,409)
	<u>(7,342,263)</u>	<u>(4,609,575)</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

8. Earnings per share

	Dec 2021 Cents	Dec 2020 Cents
Basic earnings (loss) per share	(5.7)	(3.2)
Diluted earnings (loss) per share	(5.7)	(3.2)
Income and share data used in calculations of basic and diluted earnings per share:		
Net (Loss)	(13,712,399)	(4,855,434)
	Number	Number
Weighted average number of Ordinary shares on issue in the calculation of basic earnings per share		
Effect of dilutive securities ¹	238,508,914	151,439,004
Adjusted weighted average number of Ordinary shares used in the calculation of diluted earnings per share	238,508,914	151,439,004

1. At 31 December 2021 there are 50,888,812 (31 December 2020 – 19,544,900) share options on issue which have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

9. Cash and cash equivalents

	Dec 2021 \$	Jun 2021 \$
Cash and cash equivalents consist of the following:		
Cash at bank – Australian Dollars	42,733,679	6,101,380
Term deposits – cash equivalents	3,000,000	-
Cash at bank – US Dollars	2,263,699	2,179,898
Cash at bank – Euro	167,031	157,790
	48,164,409	8,439,068

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

10. Other financial assets

	Dec 2021 \$	Jun 2021 \$
Current		
Term deposits	48,500,000	10,500,000
	<u>48,500,000</u>	<u>10,500,000</u>
Non-current		
Security deposit	11,745	11,380
	<u>11,745</u>	<u>11,380</u>

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.

11. Other receivables

	Dec 2021 \$	Jun 2021 \$
Research & development incentive receivable	6,007,157	3,199,885
Consumption taxes receivable	237,156	164,136
Interest receivable	17,824	7,899
	<u>254,980</u>	<u>172,035</u>

R&D Tax Incentive receivable at 31 December 2021 comprises \$3,262,861 in respect of the year ended 30 June 2021 (following adjustments on finalisation of tax return) and \$2,807,272 for the period July to December 2021 which is anticipated to be receivable as part of the Group's application for the year ending 30 June 2022. The receivable relating to the period July to December 2021 is an estimate and is conditional on the 2022 application being successful. The Group considers it has sufficient R&D claim history to be able to reliably estimate the R&D tax refund at this interim period.

All amounts are short-term.

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CLARITY PHARMACEUTICALS LTD

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

12. Plant & equipment

	Dec 2021	Jun 2021
	\$	\$
Equipment	179,446	176,174
Less accumulated depreciation	(95,491)	(82,981)
	<u>83,955</u>	<u>93,193</u>
Balance as at 1 July	93,193	49,521
Additions	3,272	60,311
Disposals	-	(1,014)
Depreciation	(12,510)	(15,625)
Balance as at period end	<u>83,955</u>	<u>93,193</u>

13. Trade & other payables

Trade and other payables recognised consist of the following:

Current:

Trade payables	416,596	228,146
Sundry creditors	1,252,125	1,231,034
Payroll liabilities	163,484	283,409
Superannuation payable	73,128	63,531
Other liabilities	79,277	80,419
	<u>1,984,610</u>	<u>1,806,120</u>

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

Sundry creditors include clinical trials and other research and development costs \$959,552; (June 2021: \$470,093), operations \$228,350 (June 2021: \$154,110) and corporate activities \$64,223 (2021: June \$606,831).

Other liabilities at 31 December 2021 arise from unexpended amounts under a now completed grant received by Clarity Pharmaceuticals Europe SA (from the Walloon Government, Belgium) supporting the Group's research and development programs. This was presented as a deferred income liability in prior periods. It is now considered appropriate to present this as an other liability as the Grant has concluded and the Group believes that it is unlikely that future income will be generated in relation to the Grant project.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

14. Employee entitlements

	Dec 2021	Jun 2021
	\$	\$
Current:		
Annual leave liability	476,494	342,699
Long service leave liability	102,642	21,363
	579,136	364,062
Non-Current:		
Long service leave liability	53,243	84,710

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.

15. Equity

	Dec 2021	Jun 2021
	\$	\$
Ordinary shares issued and fully paid	137,874,973	45,695,198
Cost of capital raising	(6,288,213)	(675,324)
Cost of incomplete capital raising	-	(116,352)
Total contributed equity at 31 December	131,586,760	44,903,522
Movement in ordinary shares on issue:	\$	Number
As at 1 July	44,903,522	9,490,913
Balance post July 2021 20:1 Share-Split	-	180,327,347
Issue on exercise of share options	179,775	800,000
Capital raising – Initial Public Offering	92,000,000	65,714,286
Transaction costs	(5,496,537)	-
As at 31 December	131,586,760	256,332,546

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

16. Share option reserve

	Dec 2021	Jun 2021
	\$	
Balance as at 1 July	4,205,714	3,073,575
Share options expensed – employees & consultants	1,174,279	1,816,882
Share options expensed – corporate advisors	-	253,337
Share options expensed – China Grand	6,784,556	-
Options exercised	(60,775)	(700,731)
Options expired	-	(237,349)
Balance as at 31 December	12,103,774	4,205,714

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. Employee and consultant share option expenses are further discounted based on the assessed probability of those options ultimately vesting.

On 1 July 2021, in connection with an exclusive licensing negotiation, Clarity granted China Grand Pharmaceutical and Healthcare Holdings Limited a total of 25,543,912 options at an exercise price of \$1.75 per option. Having successfully completed listing on the ASX, the expiry date of the options was 25 February 2022, subject to no change of control or insolvency events as described in the Prospectus. The options would vest only on the condition that:

- i. the Company is admitted to the Official List and its shares are quoted on the ASX; and
- ii. That the Company and China Grand validly execute a binding licence agreement on terms that are acceptable to both parties.

These options were independently valued using the Black and Scholes method, using a share price of \$1.40, share volatility of 84% (based on comparable ASX-listed companies) and a risk-free rate of 0.06%. The quantum of the option expense is not impacted by the probability of reaching a binding licence agreement, as this is considered a non-vesting condition as prescribed by Accounting Standard AASB 2 "Share Based Payment". The options expired on 25 February 2022, without vesting. As such, the share option reserve total was reduced by \$6,784,556 on 25 February 2022 and transferred to retained earnings.

17. Commitment and contingencies

The Company has intellectual property that is either licenced or assigned from the University of Melbourne or the Australian Nuclear Science and Technology Organisation, representing contingent liabilities totalling \$8,690,000 (June 2021 - \$11,192,500). Milestone payments for each intellectual property agreement are for milestones such as filing regulatory applications to conduct clinical trials, entering Phase III trials, and commencement of sales of a radiopharmaceutical agent.

These contingent liabilities are based on management judgement about the likelihood of discovery R&D, preclinical and clinical research programs progressing to a point where such milestones are achieved. The progression of programs is dependent on the research and development work, which is high risk in nature, being successful and also the possibility of programs being paused, terminated or de-prioritised for commercial reasons unrelated to the underlying technology.

The decrease since June 2021 is due to the deprioritising of an early-stage patent in the Discovery R&D program for which the Company had previously included contingent liabilities and has no bearing on the company's existing clinical program. It is anticipated that some milestones may be reached in the remainder of the year ending 30 June 2022 which will result in payments to licensors totalling \$55,000 (June 2021: \$170,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

18. Post-reporting date events

On 25 February 2022 an option deed with China Grand for 25,543,912 options exercisable into fully paid ordinary shares lapsed and were cancelled without the options being exercised.

On 3 February 2022 Clarity received a R&D tax incentive refund of \$3.3 million.

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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**CLARITY PHARMACEUTICALS LTD
ABN 36 143 005 341**

DIRECTORS' DECLARATION

FOR THE HALF YEAR ENDED 31 DECEMBER 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 31 December 2021 and of its performance for the half-year ended on that date; and
 - II. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b) There are reasonable grounds to believe that Clarity Pharmaceuticals Ltd will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Dr Alan Taylor

Chairperson

Dated this 28th day of February 2022

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Independent Auditor's Review Report

To the Members of Clarity Pharmaceuticals Ltd

Report on the review of the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Clarity Pharmaceuticals Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, and 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Clarity Pharmaceuticals Ltd does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Clarity Pharmaceuticals Ltd financial position as at 31 December 2021 and of its performance for the half year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

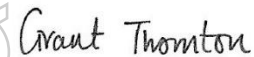
Directors' responsibility for the half-year financial report

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

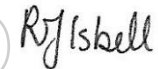
Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



R J Isbell
Partner – Audit & Assurance

Sydney, 28 February 2022