

# Appendix 4E

## Neuren Pharmaceuticals Limited ARBN 111 496 130

### Preliminary final report Financial year ended 31 December 2016

The following information is given to the ASX under listing rule 4.3A:

#### 1. Reporting Period

Neuren Pharmaceuticals Limited ARBN 111 496 130 presents the following consolidated information for the year ended 31 December 2016 together with comparative results for the year ended 31 December 2015.

All amounts shown are in Australian dollars unless otherwise stated.

#### 2. Results for announcement to the market

	2016 \$'000	2015 \$'000	Change \$'000	% Change
2.1 Operating Revenue	1,494	3,106	(1,612)	(52%)
2.2 Loss after Tax attributable to equity holders	(12,014)	(13,397)	1,383	10%
2.3 Net Loss attributable to equity holders	(12,014)	(13,397)	1,383	10%
2.4 Dividends	N/A	N/A	N/A	N/A

Operating Revenue decreased by \$1.6 million and the Loss after Tax attributable to equity holders decreased by \$1.4 million, mainly due to the following:

- A decrease of \$1.7 million in research and development costs, resulting from:
  - the completion of the Fragile X syndrome clinical trial in December 2015;
  - the completion of Traumatic Brain Injury clinical trials in April 2016; and
  - lower expenditure on manufacturing scale-up;offset by:
  - commencement of the Rett syndrome clinical trial in 2016;
- Income tax benefit from the R&D Tax Incentive of \$1.8 million, compared with \$0.7 million in 2015; and
- Foreign exchange losses of \$0.2 million included in Operating Expenditure, compared with gains of \$1.1 million in 2015 which were included in Operating Revenue.

3. Income Statement & Notes

	Notes	Consolidated	
		Dec 2016 \$'000	Dec 2015 \$'000
Interest income		188	335
		188	335
Other income			
Grants		1,306	1,673
Foreign exchange gain		-	1,098
		1,306	2,771
<b>Total income</b>		<b>1,494</b>	<b>3,106</b>
Research and development costs		(12,441)	(14,132)
Corporate and administrative costs		(1,842)	(1,888)
Foreign exchange loss		(185)	-
Share based payment expense		(884)	(1,232)
<b>Loss before income tax</b>		<b>(13,858)</b>	<b>(14,146)</b>
Income tax benefit	1	1,844	749
<b>Loss after income tax</b>		<b>(12,014)</b>	<b>(13,397)</b>
<b>Other comprehensive expense, net of tax</b>			
Disposal of Minority Interest		-	(221)
Exchange differences on translation of foreign operations		(6)	(60)
<b>Total comprehensive loss for the period</b>		<b>(12,020)</b>	<b>(13,678)</b>
<b>Loss after tax attributable to Equity holders of the company:</b>			
		(12,014)	(13,397)
<b>Total comprehensive loss attributable to Equity holders of the company:</b>			
		(12,020)	(13,678)
<b>Basic and diluted loss per share</b>	2	<b>\$0.007</b>	<b>\$0.008</b>

Note 1: Income tax	Consolidated	
	2016	2015
	\$'000	\$'000
<b>Income tax benefit</b>		
Current tax	(1,844)	(749)
Deferred tax	-	-
Income tax benefit	<u>(1,844)</u>	<u>(749)</u>
<b>Numerical reconciliation of income tax benefit to prima facie tax receivable:</b>		
Loss before income tax	(13,858)	(14,146)
Tax at applicable rates	(4,157)	(4,244)
Share option compensation not deductible	265	370
R&D tax incentive rate benefit	(327)	-
	<u>(4,219)</u>	<u>(3,874)</u>
(Over) Under provision in prior years	(727)	(819)
Deferred tax assets not recognised	3,102	3,944
<b>Income tax benefit</b>	<u><b>(1,844)</b></u>	<u><b>(749)</b></u>
<b>Current tax</b>		
Current tax receivable at the beginning of the year	-	-
Current tax benefit	1,844	749
Received during the year	(863)	(749)
<b>Current tax receivable at the end of the year</b>	<u><b>981</b></u>	<u><b>-</b></u>
<b>Deferred tax asset</b>		
<i>Amounts recognised in profit or loss</i>		
Provisions and accruals	23	21
Intangible assets	263	206
Exchange Differences	44	(321)
Tax losses	27,260	24,582
	<u>27,590</u>	<u>24,488</u>
Unrecognised deferred tax assets	(27,590)	(24,488)
<b>Deferred tax asset</b>	<u><b>-</b></u>	<u><b>-</b></u>
<b>Movements</b>		
Deferred tax asset at the beginning of the year	-	-
Credited to the income statement	3,102	3,944
Change in unrecognised deferred tax assets	(3,102)	(3,944)

Note 2: Loss per share	Consolidated	
	2016	2015
	\$'000	\$'000
Loss after income tax attributable to equity holders	(12,014)	(13,397)
Weighted average shares outstanding (basic)	1,783,503,420	1,680,362,334
Weighted average shares outstanding (diluted)	1,783,503,420	1,680,362,334
Basic and diluted loss per share	<u>(\$0.007)</u>	<u>(\$0.008)</u>

4. Balance Sheet & Notes

	Notes	Consolidated	
		As at Dec 2016 \$'000	As at Dec 2015 \$'000
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	3	5,051	16,642
Current tax receivable	1	981	-
Trade and other receivables	4	21	34
<b>Total current assets</b>		<b>6,053</b>	<b>16,676</b>
<b>Non-current assets:</b>			
Property, plant and equipment		12	11
Intangible assets	5	145	217
<b>Total non-current assets</b>		<b>157</b>	<b>228</b>
<b>TOTAL ASSETS</b>		<b>6,210</b>	<b>16,904</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Trade and other payables	6	2,027	2,502
<b>Total current liabilities</b>		<b>2,027</b>	<b>2,502</b>
<b>Non-current liabilities:</b>			
		-	-
<b>Total liabilities</b>		<b>2,027</b>	<b>2,502</b>
<b>EQUITY</b>			
Share capital	7	112,829	111,912
Other reserves		(10,292)	(7,764)
Accumulated deficit		(98,354)	(89,746)
<b>Total equity attributable to equity holders</b>		<b>4,183</b>	<b>14,402</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,210</b>	<b>16,904</b>

**Note 3: Cash and cash Equivalents**

	Consolidated	
	2016	2015
	\$'000	\$'000
Cash	2,779	4,238
Demand and short-term deposits	2,272	12,404
	5,051	16,642

**Note 4: Trade and other receivables**

	Consolidated	
	2016	2015
	\$'000	\$'000
Trade receivables	15	10
Interest receivables	6	24
	21	34

**Note 5: Intangible Assets**

	Consolidated		
	Intellectual Property	Acquired Software	Total
	\$'000	\$'000	\$'000
<b>As at 1 January 2015</b>			
Cost	1,074	10	1,084
Accumulated amortisation	(787)	(7)	(794)
Net Book Value	287	3	290
<b>Movements in the year ended 31 December 2015</b>			
Opening net book value	287	3	290
Additions	-	-	-
Amortisation	(72)	(1)	(73)
Closing net book value	215	2	217
<b>As at 31 December 2015</b>			
cost	1,074	10	1,084
Accumulated amortisation	(859)	(8)	(867)
Net book value	215	2	217
<b>Movements in the year ended 31 December 2016</b>			
Opening net book value	215	2	217
Amortisation	(71)	(1)	(72)
Closing net book value	144	1	145
<b>As at 31 December 2016</b>			
cost	1,074	10	1,084
Accumulated amortisation	(930)	(9)	(939)
Net book value	144	1	145

Intellectual Property	NNZ-2566
Opening net book value	215
Amortisation	(71)
Closing net book value	144
Remaining amortisation period	2 years

**Note 6: Trade and other payables**

	Consolidated	
	2016	2015
	\$'000	\$'000
Trade payables	1,035	1,771
Accruals	915	648
Employee Benefits	77	83
	<u>2,027</u>	<u>2,502</u>

**Note 7: Share Capital**

Consolidated	2016	2015	2016	2015
	Shares	Shares	\$'000	\$'000
Issued Share Capital				
Ordinary shares on issue at beginning of year	1,767,003,738	1,625,241,426	111,912	104,363
Shares issued in Loan Funded Share Plan	-	20,000,000	-	-
Shares issued on exercise of Equity Performance Rights	12,925,277	-	-	-
Shares issued on exercise of share options	62,000,000	51,206,757	929	1,211
Shares issued in private placement	-	70,555,555	-	6,350
Share issue expenses - cash issue costs	-	-	(12)	(12)
	<u>1,841,929,015</u>	<u>1,767,003,738</u>	<u>112,829</u>	<u>111,912</u>

**Share options table**

Consolidated	Weighted Average Exercise Price		Weighted Average Exercise Price	
	Options	(\$AUD)	Exercisable	Price (AUD\$)
<b>Outstanding at 1 January 2015</b>	115,706,757	\$0.019	115,706,757	\$0.019
Lapsed	(2,500,000)	\$0.019		
Exercised	(51,206,757)	\$0.024		
<b>Outstanding at 31 December 2015</b>	<u>62,000,000</u>	<u>\$0.015</u>	<u>62,000,000</u>	<u>\$0.015</u>
Lapsed	-			
Exercised	(62,000,000)	\$0.015	-	
<b>Outstanding at 31 December 2016</b>	<u>-</u>	<u>\$0.000</u>	<u>-</u>	<u>\$0.000</u>

5. Statement of Cash Flows

	Consolidated	
	2016	2015
	\$'000	\$'000
<b>Cash flows from operating activities:</b>		
Receipts from grants	1,306	2,642
Interest received	206	363
GST refunded	134	92
Payments for employees and directors	(1,938)	(1,993)
Payments to other suppliers	(12,949)	(14,584)
R&D Tax Refund	863	749
<b>Net cash used in operating activities</b>	<b>(12,378)</b>	<b>(12,731)</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(10)	(3)
Proceeds from sale of property, plant, equipment	-	4
<b>Net cash used in investing activities</b>	<b>(10)</b>	<b>1</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the issue of shares	-	6,350
Proceeds from the exercise of options	929	1,211
Payment of share issue expenses	(12)	(12)
<b>Net cash provided from financing activities</b>	<b>917</b>	<b>7,549</b>
Net decrease in cash	(11,471)	(5,181)
Effect of exchange rate changes on cash balances	(120)	999
Cash at the beginning of the year	16,642	20,824
<b>Cash at the end of the year</b>	<b>5,051</b>	<b>16,642</b>
<b>Reconciliation with loss after income tax:</b>		
Loss after income tax	(12,014)	(13,397)
<i>Non-cash items requiring adjustment:</i>		
Depreciation of property, plant and equipment	8	17
Amortisation of intangible assets	72	73
Share based payment expense	884	1,232
Foreign exchange gain	115	(1,059)
<i>Changes in working capital:</i>		
Trade and other receivables	(968)	929
Trade and other payables	(475)	(526)
<b>Net cash used in operating activities</b>	<b>(12,378)</b>	<b>(12,731)</b>

## 6. Statement of Changes in Equity

	Share Capital	Share Option Reserve	Currency Translation Reserve	Accumulated Deficit	Total Attributable to Equity Holders	Minority Interest	Total Equity
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Equity as at 1 January 2015</b>	104,363	9,677	(10,593)	(84,148)	19,299	(221)	19,078
Shares issued on option exercise	1,211				1,211		1,211
Shares issued in private placement	6,350				6,350		6,350
Share issue costs expensed	(12)				(12)		(12)
Share based payments		1,232			1,232		1,232
Exercised options		(8,020)		8,020	-		-
Loss after income tax for the period				(13,397)	(13,397)		(13,397)
Comprehensive loss for the period			(60)	(221)	(281)	221	(60)
<b>Equity as at 31 December 2015</b>	111,912	2,889	(10,653)	(89,746)	14,402	-	14,402
Shares issued on option exercise	929				929		929
Share issue costs expensed	(12)				(12)		(12)
Share based payments		884			884		884
Exercised options		(3,406)		3,406	-		-
Loss after income tax for the period				(12,014)	(12,014)		(12,014)
Other comprehensive expenses			(6)	-	(6)	-	(6)
<b>Equity as at 31 December 2016</b>	112,829	367	(10,659)	(98,354)	4,183	-	4,183

## 7. Dividends

No dividends were paid in the financial year. The directors do not recommend the payment of any dividends with respect to the financial year.

## 8. Dividend or Distribution Reinvestment Plan

Not applicable.

## 9. Net Tangible Assets per Security

	31 December 2016 \$	31 December 2015 \$
Net tangible assets per security	\$0.002	\$0.008

## 10. Changes in Control Over Entities

Not applicable.

## 11. Associates and Joint Venture Entities

Not applicable.



## 12. Significant Information

On 6 December 2016, shareholders gave approval for the Company to allot up to 100 million additional shares to interests of Mr Lang Walker during the period to 30 June 2017, at a subscription price equal to the volume weighted average price at which the Company's ordinary shares are traded on the Australian Securities Exchange in the 10 trading days prior to each allotment. The board therefore has the ability to make such allotments if it is necessary and in the best interests of all shareholders. At the date of this report, no allotments have been made.

On 30 January 2017, the Company announced that it had completed its Phase 2 clinical trial of trofinetide in pediatric Rett syndrome, that it remained on schedule to receive top-line results from the trial in the second half of March 2017 and that soon thereafter it intends to engage potential commercial partners regarding the remaining development and commercialization of trofinetide in the major markets.

## 13. Accounting Standards

This report has been compiled from information prepared in accordance with and complying with generally accepted accounting practice in New Zealand, International Financial Reporting Standards, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities in New Zealand.

## 14. Commentary on the Results

The consolidated loss after tax attributable to equity holders for the year ended 31 December 2016 was \$12.0 million (2015: \$13.4 million). The loss decreased by \$1.4 million, mainly due to the following:

- A decrease of \$1.7 million in research and development costs, resulting from:
  - the completion of the Fragile X syndrome clinical trial in December 2015;
  - the completion of Traumatic Brain Injury clinical trials in April 2016; and
  - lower expenditure on manufacturing scale-up;offset by:
  - commencement of the Rett syndrome clinical trial in 2016;
- Income tax benefit from the R&D Tax Incentive of \$1.8 million, compared with \$0.7 million in 2015;
- A decrease of \$0.3 million in the non-cash share based payments expense as instruments reached the end of required vesting periods of service;
- Foreign exchange losses of \$0.2 million included in Operating Expenditure, compared with gains of \$1.1 million in 2015 which was included in Operating Revenue;
- A decrease of \$0.4 million in grant revenue, which comprised funding of \$1.3 million in 2016 from Rett syndrome.org towards the cost of the Rett syndrome clinical trial and funding of \$1.7 million from the US Department of Defense in 2015 towards the cost of the Traumatic Brain Injury clinical trials.

The net loss per share for 2016 was \$0.007 (2015: \$0.008) based on a weighted average number of shares outstanding of 1,783,503,421 (2015: 1,680,362,334). There were no share options outstanding at 31 December 2016.

Cash reserves at 31 December 2016 were \$5.1 million (2015: \$16.6 million). Operating cash outflow decreased from \$12.7 million to \$12.4 million, due mainly to lower cash payments to R&D suppliers, partly offset by lower cash receipts from grants. Financing activities provided cash of \$0.9 million in 2016 from the exercise of share options, compared with \$7.5 million in 2015 from share placement proceeds of \$6.3 million and options exercise proceeds of \$1.2 million.

**15. Audit Status**

This report is based upon financial statements for the year ended 31 December 2016 which have not yet been audited. The information for the year ended 31 December 2015 as presented in this report has been extracted from audited financial statements.

**16. Emphasis of matter**

The Independent Review Report by the Company's Auditor on the Company's Interim Financial Statements for the six months to 30 June 2016 contained an emphasis of matter paragraph that drew attention to disclosures of material uncertainties affecting the Company's ability to continue as a going concern.

Those disclosures included that the directors intend that the Company will enter into a commercial partnering arrangement in 2017, the timing and terms of which are presently unknown and that should the nature and/or timing of the commercial partnering arrangement differ from the current intention, the directors would consider securing other sources of funding, including additional capital, depending on circumstances at the time. Those material uncertainties remain in existence at the date of this preliminary final report.

As noted in item 12 of this preliminary final report, on 6 December 2016 shareholders gave approval for the Company to allot up to 100 million additional shares to interests of Mr Lang Walker during the period to 30 June 2017, at a subscription price equal to the volume weighted average price at which the Company's ordinary shares are traded on the Australian Securities Exchange in the 10 trading days prior to each allotment. The board therefore has the ability to make such allotments if it is necessary and in the best interests of all shareholders. At the date of this report, no allotments have been made.