Neuren Pharmaceuticals Limited

Financial Report and Directors' Report for the year ended 31 December 2017

Directors' Report

Principal Activities
Neuren Pharmaceuticals Limited (Neuren or the Company, and its subsidiaries, or the Group) is a publicly listed biopharmaceutical company developing drugs for neurological disorders.

Performance Overview
In March 2017, Neuren announced top-line results from its Phase 2 clinical trial of trofinetide in pediatric Rett syndrome. The highest dose of trofinetide achieved statistically significant clinical benefit compared with placebo for each of three syndrome-specific efficacy measures, the Rett Syndrome Behaviour Questionnaire (p=0.042), the Clinical Global Impression of Improvement (p=0.029) and the Rett Syndrome Domain Specific Concerns (p=0.025). These measures included assessments of both clinicians and caregivers. Clinical improvements of 15% to 16% from baseline were observed, which was considered by leading Rett syndrome physicians to be clinically meaningful, particularly in a short duration trial. The improvement increased through to the time that treatment ceased, suggesting that further benefit may be achieved with longer treatment duration. These results provided strong evidence of biological activity of the high dose across multiple symptom areas, indicating the potential for disease modification rather than simply addressing isolated symptoms. In addition, trofinetide was well tolerated and had a good safety profile in these younger subjects, with no dose-limiting effects observed.

In July 2017, Neuren completed a placement of new ordinary shares to UK-based fund Lanstead Capital, Rettsyndrome.org and Neuren's directors and management. Neuren received $3 million in July 2017, comprising $1.5 million from Lanstead and $1.5 million from the other investors. The remaining subscription amount from Lanstead was invested in a Sharing Agreement with Lanstead. Neuren's economic interest from the Sharing Agreement is an equity derivative, determined and payable in 18 monthly cash settlements commencing in September 2017, of which 14 instalments remained outstanding at 31 December 2017. The calculation of each monthly settlement is dependent upon the volume weighted average price at which Neuren's shares are traded during the 20 days prior to settlement (VWAP). If the VWAP for each settlement is equal to $1.77 per share (Benchmark Price), Neuren receives $472,222 (one eighteenth of $8.5 million). If the VWAP for each settlement is higher than the Benchmark Price, Neuren receives proportionately more than $472,222 and if the VWAP for each settlement is lower than the Benchmark Price, Neuren receives proportionately less than $472,222. Neuren received $2.4 million from the 4 settlements in 2017, compared with $1.9 million that would have been received if the VWAP had been the Benchmark Price. The equity derivative is a financial asset, which is measured at fair value, with changes in fair value recognised in the Income Statement. The estimates of the fair value of the outstanding settlements at recognition and at 31 December 2017 resulted in gains of $9.5 million in the Income Statement.

In October 2017, Neuren conducted an End of Phase 2 Meeting with the US Food and Drug Administration (FDA) regarding its development program for Rett syndrome. The FDA Division of Neurology Products agreed with Neuren's proposal for the key elements of its clinical development program to support a New Drug Application for trofinetide to treat children and adults with Rett syndrome. The meeting provided necessary confirmation on the key issues relating to Neuren's proposed Phase 3 trial in Rett syndrome.

In the second half of 2017, the US Patent and Trademark Office granted a new patent covering the use of trofinetide to treat Fragile X syndrome and the European Patent Office granted a new patent concerning the use of trofinetide to treat autism spectrum disorders, which include Rett syndrome and Fragile X syndrome. Each of these patents will expire in January 2032.

The consolidated financial statements are presented on pages 5 to 26. All amounts in the Financial Statements are shown in Australian dollars unless otherwise stated.

The Group's profit after tax attributable to equity holders of the Company for the year ended 31 December 2017 was $3,288,000 compared with a loss of $12,014,000 in 2016, mainly due to the following:

- A decrease of $8.2 million in research and development costs, following the completion of the RETT syndrome pediatric trial in March 2017 and the Fragile X syndrome clinical trial in 2016;
- Gains of $9.5 million in financial assets measured at fair value through profit or loss, relating to the Sharing Agreement with Lanstead Capital that was entered into as part of the capital raising in July 2017;
- Grant income from the Australian R&D Tax incentive of $0.6 million, compared with $1.8 million in 2016, reflecting the lower eligible research and development costs; and
- A decrease of $1.3 million in other grant revenue, due to completion in 2016 of the grant funding from Rettsyndrome.org towards the cost of the Rett syndrome clinical trial.

In November 2017, Neuren completed a 1-for-20 consolidation of its ordinary shares. The weighted average number of shares and loss per share for 2017 and 2016 have been restated to reflect the consolidation. The basic earnings per share for 2017 was $0.036 (2016: loss of $0.142 per share) based on a weighted average number of shares outstanding of 91,960,841 (2016: 84,675,171).

Cash reserves at 31 December 2017 were $4.7 million (2016: $5.1 million). Operating cash outflow decreased from $12.4 million to $5.6 million, mainly due to the lower payments to R&D suppliers, partly offset by lower cash receipts from grants. Financing provided cash of $5.3 million in 2017 from the issue of shares in the July 2017 capital raising

and subsequent settlements from the Sharing Agreement, compared with $0.9 million in 2016 from the exercise of share options.

No dividends were paid in the year, or in the prior year and the Directors recommend none for the year.

Directors

Dr Richard Treagus, BScMed, MBChB, MPharmMed, MBA (Executive Chairman)

Dr Treagus joined the Neuren Board as Executive Chairman in January 2013. He is a physician, with more than 20 years' experience in all aspects of the international biopharmaceutical industry. He has held senior executive roles with pharmaceutical organisations in South Africa and Australia and has successfully established numerous pharmaceutical business partnerships in the US, Europe and Asia. Dr Treagus served as Chief Executive of the ASX-listed company Acrux Limited from 2006 to 2012. Under his leadership Acrux gained FDA approval for three drug products, concluded a product licensing transaction with Eli Lilly worth US$335m plus royalties and became profitable. In 2010 Dr Treagus was awarded the Ernst and Young Entrepreneur-of-the-Year (Southern Region) in the Listed Company Category and in subsequent years has served on the judging panel. Dr Treagus is Chairman of Biotech Capital Limited, which is listed on the ASX.

Mr Larry Glass (Executive Director and Chief Science Officer)

Mr Glass joined Neuren in 2004 and has been an Executive Director since May 2012. He has more than 30 years' experience in the life sciences industry, including clinical trials, basic and applied research, epidemiologic studies, diagnostics and pharmaceutical product development. Before he joined Neuren, he worked as an independent consultant for a number of biotech companies in the US and internationally providing management, strategic and business development services. Prior to that, he was CEO of a contract research organisation ("CRO") that provided preclinical research and clinical trials support for major pharmaceutical and biotechnology companies and the US government. For a number of years, the CRO operated as a subsidiary of a NYSE-listed company and was subsequently sold to a European biopharmaceutical enterprise which was then acquired by Johnson & Johnson. Mr Glass is a biologist with additional graduate training in epidemiology and biostatistics.

Dr Trevor Scott, MNZM, LLD (Hon), BCom, FCA, FNZIM, DF Inst D (Non-Executive Director)

Dr Scott joined the Neuren Board in March 2002. He is the founder of T.D. Scott and Co., an accountancy and consulting firm, which he formed in 1988. He is an experienced advisor to companies across a variety of industries. Dr Scott serves on numerous corporate boards and is chairman of several.

Mr Bruce Hancox, BCom (Non-Executive Director) – retired 31 December 2017

Mr Hancox joined the Neuren Board in March 2012. Mr Hancox has had a long and distinguished career in business in New Zealand and Australia. He was for many years involved with Brierley Investments Limited as General Manager, Group Chief Executive and Chairman. He also served as a director of many Brierley subsidiaries in New Zealand, Australia and the United States. Since 2006 he has pursued various private investment interests and has been a director of, and consultant to, a number of companies. He has acted as an advisor on a number of takeover situations. He is a non-executive director of the ASX-listed companies Medical Australia Limited and Biotech Capital Limited.

Interests Register

The Company is required to maintain an interests register in which particulars of certain transactions and matters involving Directors must be recorded. Details of the entries in this register for each of the Directors during and since the end of 2017 are as follows:

Dr Richard Treagus

On 29 August 2017, Dr Treagus purchased 1,290,323 shares at $0.062 per share. The rounding in the November 2017 share consolidation resulted in Dr Treagus owning one additional share.

Mr Larry Glass

On 29 August 2017, Mr Larry Glass purchased 1,290,323 shares at $0.062 per share. The rounding in the November 2017 share consolidation resulted in Mr Glass owning one additional share.

Dr Trevor Scott

On 29 August 2017, Dr Trevor Scott purchased 9,677,419 shares at $0.062 per share. The rounding in the November 2017 share consolidation resulted in Dr Scott owning one additional share.

Information used by Directors

During the year the Board received no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would not otherwise have been available to them.

Indemnification and Insurance of Directors and Officers

Neuren has arranged Directors and Officers Liability Insurance which provides that Directors and Officers generally will incur no monetary loss as a result of actions undertaken by them as Directors and Officers. The insurance does not cover liabilities arising from criminal activities or deliberate or reckless acts or omissions.

Donations

The Company made nil donations during the year (2016: $3,311).

Remuneration of Directors

Remuneration of the Directors is shown in the table below, including fees and the value of benefits, as well as the estimated fair value of share based payments amortised during the year. The Group implemented cash conservation measures in October 2016, which included the waiver of fees for non-executive directors and reductions of between 10% and 40% to the salaries or fees of certain executive directors, management and consultants, effective from 1 September 2016. The Board of Directors determined that if the Group subsequently completed a material transaction, cash incentives would be paid to those executive directors, management and consultants following completion of such a transaction. The contingent bonus provision recognises the cost of the potential incentives that if paid would relate to services provided in 2017.

	2017		2016	
Remuneration of Directors	**Remuneration**	**Contingent bonus provision**	**Remuneration**	**Share based payments**
	$'000	**$'000**	**$'000**	**$'000**
Dr Richard Treagus	288	130	341	144
Mr Larry Glass	282	246	420	-
Mr Bruce Hancox	-	-	33	-
Dr Trevor Scott	-	-	40	-

Executive Remuneration

The number of employees, not being directors of the Company, who received remuneration and benefits above NZ $100,000, shown in bands denominated in Australian dollars, was as follows:

Excluding shared based payments

	2017	**2016**
	$'000	**$'000**
$150,000 - $159,999	1	2
$240,000 - $249,999	1	1
$250,000 - $259,999	-	1
$270,000 - $279,999	1	1
$320,000 - $329,999	1	-

Including shared based payments

	2017	**2016**
	$'000	**$'000**
$150,000 - $159,999	1	2
$290,000 - $299,999	1	-
$380,000 - $389,999	-	1
$430,000 - $439,999		
$530,000 - $539,999	-	1
$560,000 - $569,999	1	-
$570,000 - $579,999	-	1

Auditors

PricewaterhouseCoopers are the auditors of the Company. Audit fees in relation to the annual and interim financial statements were $59,255 (2016: $49,954). PricewaterhouseCoopers did not receive any fees in relation to other financial advice and services (2016: Nil).

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 29 March 2018.

Dr Richard Treagus
Chairman

Dr Trevor Scott
Director

Neuren Pharmaceuticals Limited
Financial Statements
for the year ended 31 December 2017

Neuren Pharmaceuticals Limted

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	Dec 2017 $'000	Dec 2016 Restated (Notes 3 & 6) $'000
Interest income		47	188
		47	188
Grant income			
Australian R&D tax incentive	3	631	1,844
Other		-	1,306
		631	3,150
Gains on financial assets measured at fair value through profit or loss	9	9,482	-
		9,482	-
Total income		10,160	3,338
Research and development costs		(5,136)	(13,325)
Corporate and administrative costs		(1,568)	(1,842)
Foreign exchange loss		(168)	(185)
Profit / (Loss) before income tax		3,288	(12,014)
Income tax		-	-
Profit / (Loss) after income tax		3,288	(12,014)
Other comprehensive expense, net of tax			
Exchange differences on translation of foreign operations		34	(6)
Total comprehensive profit / (loss) for the year		3,322	(12,020)
Profit / (Loss) after tax attributable to Equity holders of the company:		3,288	(12,014)
Total comprehensive profit / (loss) attributable to Equity holders of the company:		3,322	(12,020)
Basic earnings / (loss) per share	6	$0.036	($0.142)
Diluted earnings / (loss) per share	6	$0.035	($0.142)

The notes on pages 9 to 26 form part of these financial statements

Neuren Pharmaceticals Limited

Consolidated Statement of Financial Position

as at 31 December 2017

	Notes	As at Dec 2017 $'000	As at Dec 2016 $'000
ASSETS			
Current Assets:			
Cash and cash equivalents	7	4,706	5,051
Trade and other receivables	8	692	1,002
Financial assets measured at fair value through profit or loss	9	10,688	-
Total current assets		16,086	6,053
Non-current assets:			
Property, plant and equipment		7	12
Intangible assets	10	73	145
Financial assets measured at fair value through profit or loss	9	1,778	-
Total non-current assets		1,858	157
TOTAL ASSETS		17,944	6,210
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	11	1,580	2,027
Total current liabilities		1,580	2,027
Non-current liabilities:			
		-	-
Total liabilities		1,580	2,027
Total equity attributable to equity holders		16,364	4,183
TOTAL LIABILITIES AND EQUITY		17,944	6,210

The notes on pages 9 to 26 form part of these financial statements

Neuren Pharmaceuticals Limited

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

Consolidated	Share Capital $'000	Share Option Reserve $'000	Currency Translation Reserve $'000	Accumulated Deficit $'000	Total Equity $'000
Equity as at 1 January 2016, as previously reported	111,912	2,889	(10,653)	(89,746)	14,402
Correction of error		1,367		(1,367)	-
Equity as at 1 January 2016, as restated	**111,912**	**4,256**	**(10,653)**	**(91,113)**	**14,402**
Shares issued on option exercise	929				929
Share issue costs expensed	(12)				(12)
Share based payments		884			884
Exercised options, restated		(2,299)		2,299	-
Loss after income tax for the period				(12,014)	(12,014)
Other comprehensive expenses			(6)	-	(6)
Equity as at 31 December 2016, as restated	**112,829**	**2,841**	**(10,659)**	**(100,828)**	**4,183**
Equity as at 31 December 2016, as previously reported	112,829	367	(10,659)	(98,354)	4,183
Correction of error		2,474		(2,474)	-
Equity as at 31 December 2016, as restated	**112,829**	**2,841**	**(10,659)**	**(100,828)**	**4,183**
Shares issued on private placement	8,351				8,351
Share issue costs expensed	(44)				(44)
Share based payments		552			552
Exercised options		(100)		100	-
Profit after income tax for the period				3,288	3,288
Other comprehensive income			34	-	34
Equity as at 31 December 2017	**121,136**	**3,293**	**(10,625)**	**(97,440)**	**16,364**

The share option reserve and accumulated deficit as at 1 January 2016 and 31 December 2016 have been restated to correct two prior period errors. Each error concerns the transfer from the share option reserve to the accumulated deficit of the previously amortised value of share options that were subsequently exercised in the relevant period.

The transfer for exercised options in 2016 has been restated from $3.4 million to $2.3 million The original transfer incorrectly included $1.1 million for the value of loan funded shares that vested in 2016, but were not exercised.

The share option reserve as at 1 January 2016 has been restated from $2.9 million to $4.3 million and the accumulated deficit as at 1 January 2016 has been restated from $89.7 million to $91.1 million in order to correct errors from when the company changed its funtional currency from NZD to AUD on 1 January 2014.

The combined impact of the two corrections is to increase the share option reserve as at 31 December 2016 by $2.5 million and increase the accumulated deficit by the same amount. The restatements have no impact on total equity, assets, liabilities, or the Income Statement for 2016. As such the correction made on 1 January 2016 was not considered material and the company did not present an opening balance sheet.

The notes on pages 9 to 26 form part of these financial statements

Neuren Pharmaceuticals Limited

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	2017 $'000	2016 $'000
Cash flows from operating activities:		
Receipts from Australian R&D Tax Incentive	981	863
Receipts from other grants	-	1,306
Interest received	49	206
GST refunded	70	134
Payments for employees and directors	(1,494)	(1,938)
Payments to other suppliers	(5,196)	(12,949)
Net cash used in operating activities	(5,590)	(12,378)
Cash flows from investing activities:		
Purchase of property, plant and equipment	-	(10)
Net cash used in investing activities	-	(10)
Cash flows from financing activities:		
Proceeds from the issue of shares	5,367	-
Proceeds from the exercise of options	-	929
Payment of share issue expenses	(44)	(12)
Net cash provided from financing activities	5,323	917
Net decrease in cash	(267)	(11,471)
Effect of exchange rate changes on cash balances	(78)	(120)
Cash at the beginning of the year	5,051	16,642
Cash at the end of the year	4,706	5,051

Reconciliation with profit / (loss) after income tax:		
Profit / (Loss) after income tax	3,288	(12,014)
Non-cash items requiring adjustment:		
Depreciation of property, plant and equipment	6	8
Amortisation of intangible assets	72	72
Share based payment expense	552	884
Foreign exchange loss / (gain)	111	115
Gain on financial assets	(9,482)	-
Changes in working capital:		
Trade and other receivables	310	(968)
Trade and other payables	(447)	(475)
Net cash used in operating activities	(5,590)	(12,378)

The notes on pages 9 to 26 form part of these financial statements

1. Nature of business

Neuren Pharmaceuticals Limited (Neuren or the Company, and its subsidiaries, or the Group) is a publicly listed biopharmaceutical company developing drugs for neurological disorders. The drugs target treatment of chronic neurodevelopmental and neurodegenerative disorders, as well as acute traumatic brain injury.

The Company is a limited liability company incorporated in New Zealand. The address of its registered office in New Zealand is at the offices of Lowndes Jordan, Level 15 PWC Tower, 188 Quay Street, Auckland 1141. Neuren ordinary shares are listed on the Australian Securities Exchange (ASX code: NEU).

These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2018.

Inherent Uncertainties

- There are inherent uncertainties associated with assessing the carrying value of the acquired intellectual property. The ultimate realisation of the carrying values of intellectual property is dependent on the Group successfully developing its products, on licensing the products, or divesting the intellectual property so that it generates future economic benefits to the Group.

- The Group's research and development activities involve inherent risks. These risks include, among others: dependence on, and the Group's ability to retain key personnel; the Group's ability to protect its intellectual property and prevent other companies from using the technology; the Group's business is based on novel and unproven technology; the Group's ability to sufficiently complete the clinical trials process; and technological developments by the Group's competitors may render its products obsolete.

- The Company has a business plan which will require expenditure in excess of revenue until revenue streams are established and therefore expects to continue to incur additional net losses until then. In the future, the Company may need to raise further financing through other public or private equity financings, collaborations or other arrangements with corporate sources, or other sources of financing to fund operations. There can be no assurance that such additional financing, if available, can be obtained on terms reasonable to the Company.

- The Company entered a Sharing Agreement with Lanstead Capital LP as a part of the capital raising completed in July 2017, under which the Company receives 18 monthly settlements calculated with reference to both the volume weighted average price at which Neuren's shares are traded during the 20 days prior to each settlement (VWAP), and a rate of return which effectively results in a discount to the VWAP. Movements in the share price could materially impact the fair value of the 14 monthly instalments that remained outstanding at 31 December 2017 and the cash amounts received from those instalments (Refer Note 9).

2. Summary of significant accounting policies

These general-purpose consolidated financial statements of the Group are for the year ended 31 December 2017 and have been prepared in accordance with and comply with generally accepted accounting practice in New Zealand (GAAP), International Financial Reporting Standards, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), the requirements of the Financial Markets Act 2013, and other applicable Financial Reporting Standards as appropriate for profit-oriented entities.

(a) Basis of preparation

Entities Reporting

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 31 December 2017 and the results of all subsidiaries for the year then ended. Neuren Pharmaceuticals Limited and its subsidiaries, which are designated as profit-oriented entities for financial reporting purposes, together are referred to in these financial statements as the Group.

Statutory Base

Neuren is registered under the New Zealand Companies Act 1993. Neuren is also registered as a foreign company under the Australian Corporations Act 2001.

Historical cost convention

These financial statements have been prepared under the historical cost convention as modified by certain policies below.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Company and Group to exercise its judgement in the process of applying the Company and Group's accounting policies. Actual results may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 17.

Going concern basis
The directors monitor the Group's cash position and initiatives to ensure that adequate funding continues to be available for the Group to meet its business objectives. The Group recorded operating cash outflow of $5.6 million for the year ended 31 December 2017 and had net assets at 31 December 2017 of $16.4 million, including cash balances of $4.7 million and fair value of the outstanding cash settlements due from Lanstead Capital of $12.5m. The amounts of the settlements from Lanstead have a dependency on the Company's share price, as described in Note 9.

To enable the Group to complete the development of trofinetide, the Directors intend that the Group will enter a commercial partnering arrangement in 2018, the timing and terms of which are presently unknown. In addition, the Directors will consider securing other sources of funding, including additional capital, depending on circumstances at the time. The ability of the Group to enter into a commercial partnering arrangement or secure other sources of funding, together with the dependency of the Lanstead settlements on the share price, gives rise to the existence of material uncertainties that may cast significant doubt over the ability of the Group to continue to operate as a going concern, realise its assets and meet its obligations in the normal course of business. It is the considered view of the Directors that the Group will have access to adequate resources to meet its ongoing obligations for at least a period of 12 months from the date of signing these financial statements. On this basis, the Directors have assessed it is appropriate to adopt the going concern basis in preparing its financial statements. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

Changes in accounting policies
There is no significant impact of changes in accounting policies for the year ended 31 December 2017.
Standards, interpretations and amendments to published standards that are not yet effective
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for later periods and which the Group has not adopted early. None are expected to impact the Group.

(b) Principles of Consolidation
Subsidiaries
Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(c) Segment Reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

(d) Foreign Currency Translation
(i) Functional and Presentation Currency
The functional and presentation currency of the Company and Group is Australian Dollars.

(ii) Transactions and Balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Foreign Operations
The results and financial position of foreign entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each Statement of Comprehensive Income are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Revenue recognition

Grants

Grants received are recognised in the Statement of Comprehensive Income over the periods in which the related costs for which the grants are intended to compensate are recognised expenses and when the requirements under the grant agreement have been met. Any grants received for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(f) Research and development

Research costs include direct and directly attributable overhead expenses for drug discovery, research and pre-clinical and clinical trials. Research costs are expensed as incurred.

When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the process or products produced, development expenditure is recognised as a development asset using the following criteria:

- a product or process is clearly defined and the costs attributable to the product or process can be identified separately and measured reliably;
- the technical feasibility of the product or process can be demonstrated;
- the existence of a market for the product or process can be demonstrated and the Group intends to produce and market the product or process;
- adequate resources exist, or their availability can be reasonably demonstrated to complete the project and market the product or process.

In such cases the asset is amortised from the commencement of commercial production of the product to which it relates on a straight-line basis over the years of expected benefit. Research and development costs are otherwise expensed as incurred.

(g) Income tax

The income tax expense for the period is the tax payable on the period's taxable income or loss using tax rates enacted or substantively enacted at the balance sheet date and adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted at the balance sheet date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the comprehensive income statement on a straight-line basis over the period of the lease.

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. All non-financial assets are also reviewed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount of a long-lived asset is considered impaired when the recoverable amount from such asset is less than its carrying value. In that event, a loss is recognised in the Statement of Comprehensive Income based on the amount by which the carrying amount exceeds the fair value less costs of disposal and value in use of the long-lived asset. Fair market value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved.

(j) Goods and services tax (GST)

The financial statements have been prepared so that all components are presented exclusive of GST. All items in the statement of financial position are presented net of GST, with the exception of receivables and payables, which include GST invoiced.

(k) Cash and cash equivalents
Cash and cash equivalents comprises cash and demand deposits held with established financial institutions and highly liquid investments, which have maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Accounts receivable
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(m) Property, plant and equipment
Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.
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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation is determined principally using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Scientific equipment	4 years
Computer equipment	2-10 years
Office furniture, fixtures & fittings	3-4 years
Leasehold Improvements	Term of lease

(n) Intangible assets
Intellectual property
Costs in relation to protection and maintenance of intellectual property are expensed as incurred unless the project has yet to be recognised as commenced, in which case the expense is deferred and recognised as contract work in progress until the revenues and costs associated with the project are recognised.

Acquired patents, trademarks and licences have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost over the anticipated useful lives, which are aligned with the unexpired patent term or agreement over trademarks and licences.

Acquired software
Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

(o) Employee benefits
Wages and salaries and annual leave
Liabilities for wages and salaries, bonuses and annual leave expected to be settled within 12 months of the reporting date are recognised in accrued liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating personal leave are recognised when the leave is taken and measured at the rates paid or payable.

Share-based payments
Neuren operates equity-settled share option and share plans. The fair value of the services received in exchange for the grant of the options or shares is recognised as an expense with a corresponding increase in other reserve equity over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares at grant date. At each balance sheet date, except for options that are subject to a market condition for vesting, the Company revises its estimates of the number of options that are expected to vest and become exercisable. It recognises the impact of the revision of original estimates, if any, in the Statement of Comprehensive Income, and a corresponding adjustment to equity over the remaining vesting period.

When options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital.

(p) Share issue costs
Costs associated with the issue of shares which are recognised in shareholders' equity are treated as a reduction of the amount collected per share.

(q) Financial instruments
Financial instruments recognised in the statement of financial position include cash and cash equivalents, trade and other receivables and payables and financial assets.

Loans and receivables
Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and "cash and cash equivalents" in the statement of financial position. Loans and receivables are measured at amortised cost using the effective interest method less impairment, which approximates fair value due to their short term nature.

Derivative financial assets
Derivative financial assets are measured at fair value through profit or loss. Fair value is an estimate of the price that would be received to sell each asset in an orderly transaction between market participants at the measurement date, taking into account the particular characteristics of the asset and assumptions that market participants would take into account when pricing the asset at the measurement date, assuming that the market participants act in their economic best interest. For each asset, valuation techniques are used that are appropriate in the circumstances and for which sufficient data are available to estimate fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(r) Earnings per share
Basic and diluted earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

3. Segment information

The Group operates as a single operating segment and internal management reporting systems present financial information as a single segment. The segment derives its revenue and incurs expenses through the development of pharmaceutical products. Grant income arises from the Australian research and development tax incentive. In addition, other grant income was received from Rettsyndrome.org in 2016. The Group previously classified the Australian research and development tax incentive as income tax benefit and therefore presented it on the income tax line. Management have re-assessed the nature of this tax incentive and considered it is more akin to a government grant. Therefore, this incentive has been reclassified as part of grant income in the consolidated statement of comprehensive income. The comparative figures have also been reclassified. As the reclassification has no impact on the prior year loss amount, there is no impact on basic and diluted loss per share presented in the prior year. In addition, the note to income tax benefit (note 5) has also been revised.

The Board of the Company has been identified as the chief operating decision maker. The Board assesses the financial performance and position of the group, and makes strategic decisions.

4. Expenses

	Consolidated	
	2017 $'000	2016 $'000
Loss before income tax includes the following expenses:		
Depreciation – property, plant and equipment		
Computer equipment	4	6
Fixtures and fittings	2	2
Total depreciation	6	8
Amortisation – intangible assets		
Intellectual property	71	71
Software	1	1
Total amortisation	72	72
Remuneration of auditors (PwC)		
Audit and review of financial statements	59	50
Total remuneration of auditors	59	50
Employee benefits expense		
Salaries and wages - research & development	827	980
Salaries and wages - corporate & adminstrative	316	379
Contingent bonus provision - corporate & adminstrative	97	-
Share based payments - research & development	441	456
Share based payments - corporate & adminstrative	111	284
Total employee benefits expense	1,792	2,099
Directors' compensation		
Fees - Research & development	282	420
Fees - Corporate & administrative	288	414
Contingent bonus provision - research & development	246	-
Contingent bonus provision - corporate & administrative	130	-
Share based payments - corporate & administrative	-	144
Total Directors' compensation	946	978
Lease expense	27	94
Foreign exchange loss on revaluation of forward contracts	46	-

The Group implemented cash conservation measures in October 2016, which included reductions of between 10% and 40% to the salaries or fees of certain executive directors, management and consultants, effective from 1 September 2016. The Board of Directors determined that if the Group subsequently completed a material transaction, cash incentives would be paid to those people following completion of such a transaction. The contingent bonus provision recognises the cost of the potential incentives that relates to services provided in 2017.

5. Income tax

	Consolidated	
	2017	2016 Restated (Note 3)
	$'000	$'000
Income tax		
Current tax	-	-
Deferred tax	-	-
	-	-
Numerical reconciliation of income tax to prima facie tax receivable:		
Profit / (Loss) before income tax	3,288	(12,014)
Tax at applicable rates	904	(3,424)
Non-taxable Australian R&D Tax Incentive	(174)	(526)
Non deductible share option expenses	152	252
Non-taxable Gain in fair value of equity derivative	(865)	-
Utilisation of previously unrecognised tax losses	(1,611)	-
Deductible temporary difference and tax losses for which no deferred tax asset was recognised	1,594	3,698
Income tax benefit	-	-
Gross tax losses for which no deferred tax asset has been recognised (a)	93,584	95,441

(a) Of these gross tax losses, NZ$67 million relates to New Zealand tax losses, which are unlikely to be utilised.

2016 has been restated as previously the Australian R&D tax incentive was recorded as an income tax benefit, and has now been reclassified as grant income, as described in note 3.

6. Earnings / (Loss) per share

Basic earnings / (loss) per share is based upon the weighted average number of outstanding ordinary shares. During the year ended 31 December 2016, management included unexercised 90 million (4.5 million restated upon share consolidation in 2017 (see note 12) loan funded shares granted in prior years when calculating the weighted average number of outstanding shares for the purposes of basic loss per share. As such loan funded shares should be excluded from basic loss per share calculation, the Company restated its basic loss per share for 2016 from A$0.0067 to A$0.0071 (from A$0.135 to A$0.142 as restated upon share consolidation in 2017). As the Company's potentially dilutive ordinary share equivalents (being share options, loan funded shares and equity performance rights set out in note 12) have an anti-dilutive effect on the amount of loss per share and therefore, should not be included in determining the total weighted average number of ordinary shares outstanding for the purposes of calculating diluted loss per share, the Company also restated the diluted loss per share for 2016. This equals to the restated basic loss per share.

In November 2017 a share consolidation resulted in 20 ordinary shares being consolidated into 1 share. Fractional entitlements were rounded up to the nearest whole share. The loss per share for 2016 has been restated to reflect this consolidation.

For the year ended 31 December 2017, the Group has two categories of dilutive potential ordinary shares: loan funded shares and equity performance rights. For loan funded shares, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the exercise price attached to the outstanding loan funded shares. The number of loan funded shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the loan funded shares. Any "out-of-money" loan funded shares are also excluded. For equity performance rights, shares are assumed issued.

	Consolidated		
	2017	2016 Restated	2016 Restated
Loss after income tax attributable to equity holders (basic) ($'000)	3,288	(12,014)	(12,014)
Weighted average shares outstanding (basic) (No.)	91,960,841	84,675,171	1,693,503,420
Basic earnings / (loss) per share	$0.036	($0.142)	($0.007)
Loss after income tax attributable to equity holders (diluted) ($'000)	3,288	(12,014)	(12,014)
Weighted average shares outstanding (diluted) (No.)	93,029,924	84,675,171	1,693,503,420
Diluted earnings / (loss) per share	$0.035	($0.142)	($0.007)

7. Cash and cash Equivalents

	Consolidated	
	2017 $'000	2016 $'000
Cash	1,736	2,779
Demand and short-term deposits	2,970	2,272
	4,706	5,051

8. Trade and other receivables

	Consolidated	
	2017	2016
	$'000	$'000
Trade receivables	44	-
Other receivables	14	15
Interest receivables	3	6
Australian R&D tax incentive	631	981
	692	1,002

Trade and other receivables in 2016 have been restated to change the classification of the Australian R&D Tax Incentive from current tax receivable to a government grant receivable.

9. Financial Assets measured at fair value through profit or loss

	Consolidated	
	2017	2016
	$'000	$'000
Current		
Equity derivative	10,688	-
Non-Current		
Equity derivative	1,778	-
Total	12,466	-

Reconciliation of the fair values at the end of the current financial year are set out below:

	Consolidated	
	2017	2016
	$'000	$'000
Initial recognition of equity derivative	5,351	-
Cash settlements received	(2,367)	-
Net gain through profit or loss	9,482	-
Closing fair value	12,466	-

Financial instruments classified under the equity swap arrangement are measured at fair value using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. These financial assets are classified as level 2.

In July 2017, Neuren completed a placement of new ordinary shares, the subscribers for which included Lanstead Capital. Neuren entered into a Sharing Agreement with Lanstead Capital, under which Neuren's economic interest was an equity derivative, determined and payable in 18 monthly cash settlements commencing in September 2017, of which 14 instalments remained outstanding at 31 December 2017.

The calculation of each monthly settlement is dependent upon the volume weighted average price at which Neuren's shares are traded during the 20 days prior to settlement (VWAP). If the VWAP for each settlement is equal to $1.77 per share (Benchmark Price), Neuren receives $472,222 (one eighteenth of $8.5 million). If the VWAP for each settlement is higher than the Benchmark Price, Neuren receives proportionately more than $472,222 and if the VWAP for each settlement is lower than the Benchmark Price, Neuren receives proportionately less than $472,222. Should the Company's share price drop significantly, the cumulative remaining settlement amount could reduce to zero. $2.4 million was received from the 4 settlements in 2017 (compared with $1.9 million that would have been received if the VWAP had been the Benchmark Price).

The key assumption for the calculation of the fair value of the equity derivative is the estimated VWAP applicable to each settlement. For the fair value on recognition, the VWAP was assumed to be $1.22 per share, which was the lowest traded price of Neuren's shares on 17 July 2017. For the fair value at 31 December 2017, the VWAP was assumed to be $3.12 per share, which was the lowest traded price of Neuren's shares on 29 December 2017. The fair value calculations were adjusted to reflect the time value of money and the estimated credit risk associated with the counterparty.

A sensitivity analysis of the fair value at 31 December 2017 for different VWAP assumptions within a reasonably possible range is presented in the following table:

Assumed VWAP ($)	Fair value ($m)
2.50	9.8
3.00	12.0
3.50	14.1

10. Intangible Assets

	Consolidated		
	Intellectual Property $'000	Acquired Software $'000	Total $'000
As at 1 January 2016			
Cost	1,074	10	1,084
Accumulated amortisation	(859)	(8)	(867)
Net Book Value	215	2	217
Movements in the year ended 31 December 2016			
Opening net book value	215	2	217
Amortisation	(71)	(1)	(72)
Closing net book value	144	1	145
As at 31 December 2016			
cost	1,074	10	1,084
Accumulated amortisation	(930)	(9)	(939)
Net book value	144	1	145
Movements in the year ended 31 December 2017			
Opening net book value	144	1	145
Amortisation	(71)	(1)	(72)
Closing net book value	73	-	73
As at 31 December 2017			
cost	1,074	10	1,084
Accumulated amortisation	(1,001)	(10)	(1,011)
Net book value	73	-	73

Intellectual Property	**NNZ-2566**
Opening net book value	144
Amortisation	(71)
Closing net book value	73
Remaining amortisation period	1 year

11. Trade and other payables

	Consolidated	
	2017	2016
	$'000	$'000
Trade payables	723	1,035
Accruals	265	915
Employee Benefits	592	77
	1,580	2,027

Trade payables and accruals relate to operating expenses, primarily research and development expenses. Trade payable comprise amounts invoiced prior to 31 December 2017 and accruals comprise the value of work done but not invoiced prior to 31 December 2017.

12. Share Capital

Consolidated	2017 Shares	2016 Shares	2017 $'000	2016 $'000
Issued Share Capital				
Ordinary shares on issue at beginning of year	1,841,929,015	1,767,003,738	112,829	111,912
Shares issued on exercise of Equity Performance Rights	1,308,901	12,925,277	-	-
Shares issued on exercise of share options	-	62,000,000	-	929
Shares issued in private placement	193,548,389	-	8,351	-
Share issue expenses - cash issue costs	-	-	(44)	(12)
	2,036,786,305	1,841,929,015	121,136	112,829
Share Consolidation	(1,934,946,285)	-	-	-
	101,840,020	1,841,929,015	121,136	112,829

In July 2017, Neuren completed a placement of new ordinary shares in return for $3 million in cash and an equity derivative under a Sharing Agreement with Lanstead Capital, the fair value of which was $5.4 million.

In November 2017 all issued ordinary shares were consolidated, with 20 ordinary shares being consolidated into 1 ordinary share. Fractional entitlements were rounded up to the nearest whole share. The total number of shares on issue prior to the consolidation was 2,036,786,305. After the share consolidation and at 31 December 2017 this was reduced to 101,840,020 shares.

At 31 December 2017 and 31 December 2016, 4.5 million ordinary shares were held as treasury stock in respect of the loan funded share plan described in section (b) below.

Ordinary Shares
The ordinary shares have no par value and all ordinary shares are fully paid-up and rank equally as to dividends and liquidation, with one vote attached to each fully paid ordinary share.

Share based payments
Neuren has operated 3 equity-settled share based payment plans, a share option plan, a loan funded share plan and an equity performance rights plan. No securities were issued under any of these plans in 2016 or 2017.

Equity-settled share based payments expensed in the Income Statement were as follows:

	2017 $'000	2016 $'000
Loan funded shares	532	809
Equity performance rights	20	75
Total	**552**	**884**

At 31 December 2017, all services required for the instruments issued under share based payment plans had been received and therefore in future periods there is expected to be no expense in the Income Statement relating to those instruments.

(a) Share Options

The Company previously operated a Share Option Plan to assist in the retention and motivation of senior employees and certain consultants ("Participants"). Under the Share Option Plan, options may be offered to Participants by the Remuneration and Audit Committee. The maximum number of options to be issued and outstanding under the Share Option Plan is 15% of the issued ordinary shares of the Company at any time, with one third of these available to the directors with the approval of shareholders. No payment is required for the grant of options under the Share Option Plan. Each option is an option to subscribe in cash for one ordinary share, but does not carry any right to vote. Upon the exercise of an option by a Participant, each ordinary share issued will rank equally with other ordinary shares of the Company. Options granted under the Share Option Plan generally vest over three years' service by the Participant and lapse five years after grant date. At 31 December 2017 there were no options outstanding under the Share Option Plan (2016: nil).

Movements in the number of share options were as follows:

	Share Options	Weighted Average Exercise Price	Weighted Average Share Price at exercise	Exercisable	Weighted Average Exercise Price
Outstanding at 1 January 2016	62,000,000	$0.015		62,000,000	$0.015
Exercised	(62,000,000)	$0.015	$0.046		
Outstanding at 31 December 2016	-	$0.000		-	
Outstanding at 31 December 2017	-	$0.000		-	

(b) Loan funded shares

The Company has a Loan Funded Share Plan to support the achievement of the Company's business strategy by linking executive reward to improvements in the financial performance of the Company and aligning the interests of executives with shareholders. Under the Loan Funded Share Plan, loan funded shares may be offered to employees or consultant ("Participants") by the Remuneration and Audit Committee. The Company issues new ordinary shares, which are placed in a trust to hold the shares on behalf of the Participant. The trustee issues a limited-recourse, interest-free loan to the participant, which is equal to the number of shares multiplied by the issue price. A limited-recourse loan means that the repayment amount will be the lesser of the outstanding loan and the market value of the shares that are subject to the loan. The trustee continues to hold the shares on behalf of the Participant until all vesting conditions have been satisfied and the Participant chooses to settle the loan, at which point ownership of the shares is transferred from the trust to the Participant. Any dividends paid by the Company while the shares are held by the trust are applied as repayment of the loan at the after-tax value of the dividend. The directors may apply vesting conditions to be satisfied before the shares can be transferred to the Participant. Before the loan can be given, the New Zealand Companies Act requires the Company to disclose to shareholders the provision of financial assistance to the Participant. The maximum loan term is 5 years.

All shares issued under the plan were issued subject to the following vesting conditions:

a. The Participant is continuously a director or employee of the Company for a period of three years commencing on the day on which the directors resolved to issue the Loan Funded Shares ("Issue Date") and finishing on the third anniversary of the issue date (or such other date on which the directors make a determination as to whether the vesting conditions have been met) (the "Vesting Period"); and

b. 50% of the Loan Funded Shares shall each vest where the following performance conditions are met:
   i. The Total Shareholder Return (TSR) on the Company's ASX-listed ordinary shares equals or exceeds 75% over the Vesting Period. The TSR is calculated using the average closing share price over the period of 30 consecutive trading days concluding on the Issue Date and the average closing share price over the period of 30 consecutive trading days concluding on the date on which the Vesting Period ends; and
   ii. Within the Vesting Period, either:
      1. The Company determines to progress a product candidate to a Phase 2b or Phase 3 clinical trial following a positive Phase 2 clinical trial outcome and a national regulatory authority approves the initiation of such trial, or
      2. A material partnering or licensing transaction is concluded.

Movements in the number of Loan Funded Shares were as follows:

	Loan Funded Shares	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
Outstanding at 1 January 2016	90,000,000	$0.066	-	
Exercised	-			
Outstanding at 31 December 2016	90,000,000	$0.066	40,000,000	$0.039
Share consolidation	(85,500,000)			
Exercised	-			
Outstanding at 31 December 2017	4,500,000	$1.32	2,000,000	$0.78

The exercise prices for the outstanding loan funded shares are $0.78 per share in respect of 2 million shares, $1.84 per share in respect of 1.5 million shares and $1.64 per share in respect of 1 million shares. The weighted average remaining contractual life at 31 December 2017 was 1.2 years.

In 2016 the directors determined that 2 million Loan Funded Shares had vested and deferred making a determination on the vesting conditions in respect of 1.5 million Loan Funded Shares until 24 September 2017, or an earlier date determined by the directors. In 2017 the directors deferred making a determination on the vesting conditions in respect of 2.5 million Loan Funded Shares until 1 September 2018, or an earlier date determined by the directors.

(c) Equity Performance Rights

The Company previously issued equity performance rights ("EPR") to certain executives, calculated as a fixed amount divided by the average closing price of the listed ordinary shares of the Company over the five trading days immediately preceding the date of acceptance of an offer of employment ("measurement date"). Subject to continuous service by the recipient, each EPR vests three years from the date on which service commences ("vesting date"). When vested, the Company will issue at no cost one new ordinary share for each EPR exercised. The issued shares shall rank equally with the Company's other issued ordinary shares and the recipient shall be free to deal with the issued shares in accordance with the Company's Securities Trading Policy. The EPR will vest automatically upon any effective change in control of the Company, control being when a person and their associates become the holder of greater than 50% of the ordinary share voting rights. Any unvested EPR will expire if the recipient ceases to be an employee or director of the Company.

Movements in the number of EPR were as follows:

	EPR	Weighted Average Exercise Price	Weighted Average Share Price on exercise	Exercisable	Weighted Average Exercise Price
Outstanding at 1 January 2016	14,234,178	nil		-	nil
Exercised	(12,925,277)	nil	$0.044		
Outstanding at 31 December 2016	1,308,901	nil		1,308,901	nil
Exercised	(1,308,901)	nil	$0.061		
Outstanding at 31 December 2017	-			-	

13. Subsidiaries

(a) Investment in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(b).

Name of entity	Date of incorporation	Principle activities	Interest held	Domicile	2017 $'000	2016 $'000
AgVentures Limited	7-Oct-03	Dormant	100%	NZ	-	-
NeuroendocrinZ Limited	10-Jul-02	Dormant	100%	NZ	-	-
Neuren Pharmaceuticals Inc.	20-Aug-02	Development services	100%	USA	408	479
Neuren Pharmaceuticals (Australia) Pty Ltd	9-Nov-06	Dormant	100%	Australia	-	-
Neuren Trustee Limited	29-May-13	Holds loan funded shares	100%	NZ	-	-

All subsidiaries have a balance date of 31 December.

14. Commitments and contingencies

(a) Operating leases

The following aggregate future non-cancellable minimum lease payments for premises have been committed to by the Company, but not recognised in the financial statements.

	Consolidated	
	2017 $'000	2016 $'000
Non-cancellable operating lease commitments		
Not later than one year	-	12
Later than one year and not later than five years	-	-
	-	12

(b) Legal claims

The Group had no significant legal matter contingencies as at 31 December 2017 or at 31 December 2016.

(c) Capital commitments

The Group was not committed to the purchase of any property, plant or equipment or intangible assets as at 31 December 2017 (2016: nil).

(d) Contingent liability

The Group had no contingent liabilities at 31 December 2017 or at 31 December 2016 that require disclosure.

15. Related party transactions

(a) Key Management Personnel

The Key Management Personnel of the Group (KMP) include the directors of the Company and direct reports to the Executive Chairman. Compensation for KMP was as follows:

	Consolidated	
	2017 $'000	2016 $'000
Directors:		
Fees	570	834
Contingent bonus provision	376	-
Share based payment compensation	-	144
Management:		
Salaries	771	706
Contingent bonus provision	97	-
Post-employment benefits	60	58
Share based payment compensation	552	740
	2,426	2,482

The Group implemented cash conservation measures in October 2016, which included waiver of non-executive director's fees and reductions of between 10% and 40% to the salaries or fees of certain executive directors, management and consultants, effective from 1 September 2016. The Board of Directors determined that if the Group subsequently completed a material transaction, cash incentives would be paid to those executive directors, management and consultants following completion of such a transaction. The contingent bonus provision recognises the cost of the potential incentives that if paid would relate to services provided in 2017.

During the year ended 31 December 2017, 1,308,901 ordinary shares were issued to management, following vesting of Equity Performance Rights. During the year ended 31 December 2016, 9,615,385 ordinary shares were issued to Dr Richard Treagus and 3,309,892 ordinary shares were issued to management, following the vesting of Equity Performance Rights.

(b) Subsidiaries

The ultimate parent company in the Group is Neuren Pharmaceuticals Limited ("Parent"). The Parent funds the activities of the subsidiaries throughout the year as needed. Interests in and amounts due from subsidiaries are set out in note 13. All amounts due between entities in the Group are payable on demand and bear no interest.

16. Events after balance date

As at the date of these financial statements authorised for issue, there were no events arising since 31 December 2017 that require disclosure.

17. Financial instruments and risk management

(a) Categories of financial instruments

		Consolidated			
		At amortised cost		At fair value through profit or loss	
Financial assets		Floating Interest Rate	Non-Interest Bearing	Non-Interest Bearing	Total
2017		$'000	$'000	$'000	$'000
Cash and cash equivalents	7	4,706	-	-	4,706
Trade and other receivables	8	-	692	-	692
Equity derivative	9	-	-	12,466	12,466
Total financial assets		4,706	692	12,466	17,864
2016					
Cash and cash equivalents	7	5,051	-	-	5,051
Trade and other receivables	8	-	1,002	-	1,002
Total financial assets		5,051	1,002	-	6,053

		Consolidated	
Financial liabilities		**2017**	**2016**
Amortised cost - Non-Interest Bearing:		**$'000**	**$'000**
Trade and other payables		1,580	2,027
Total financial liabilities	11	1,580	2,027

At 31 December 2017, the balance sheet value of all financial instruments approximated to the fair value.

(b) Risk management

The Company and its subsidiaries are subject to a number of financial risks which arise as a result of its activities.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Equity price risk
The Company has an equity derivative for which market risk arises with movements in the share price of the Company, as described in Note 9 above.

Currency risk
During the normal course of business the Company and its subsidiaries enter into contracts with overseas customers or suppliers or consultants that are denominated in foreign currency. As a result of these transactions there is exposure to fluctuations in foreign exchange rates. The Company also has a net investment in a foreign operation, whose net assets are exposed to foreign currency translation risk.

The principle currency risk faced by the business is the exchange rate between the Australian dollar and the US dollar. The majority of the Company's cash reserves are denominated in Australian dollars and the majority of its future expenditure is expected to be denominated in US dollars.

Where possible, the Group matches foreign currency income and expenditure as a natural hedge. When foreign currency expenditure exceeds revenue (such as US dollar expenditure), the group purchases foreign currency to meet future anticipated requirements under spot and forward contracts. This may result in the Group holding significant amounts of cash denominated in US dollars. The Group does not designate formal hedges. At 31 December 2016, there were no forward contracts outstanding.

At 31 December 2017, there were four forward contracts to convert Australian dollars to US dollars outstanding, and one forward contract to convert Australian dollars to EUR outstanding, as detailed in the table below. Adjustment of these financial instruments to fair value as measured at 31 December 2017 resulted in a loss of approximately $46,000. This fair value measurement is categorised within Level 2 of the fair value hierarchy. Fair value was determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Settlement date	Buy US	Sell Australian	Contract rate
15 February 2018	$250,000	$327, 525	0.7633
15 March 2018	$250,000	$327,869	0.7625
16 April 2018	$250,000	$328,213	0.7617
15 June 2018	$250,000	$328,861	0.7602
	Buy EUR		
16 January 2018	€456,161	$713,532	0.6393

During the year, the US dollar fluctuated against the Australian dollar. A foreign exchange loss of $168,000 is included in results for the year ended 31 December 2017 (2016: loss $185,000). The majority of the loss relates to losses on the revaluation for reporting purposes of the Company's US dollar denominated cash reserves into Australian dollars.

The carrying amounts of US dollar denominated financial assets and liabilities are as follows:

	Consolidated	
	2017 $'000	2016 $'000
Assets		
US dollars	631	2,497
Liabilities		
US dollars	112	1,736

An increase of 10% in the value of the US dollar against the Australian dollar as at the reporting date would have increased the consolidated loss after income tax by $47,000 (2016: $69,000). A decrease of 10% in the value of the US dollar against the Australian dollar as at the reporting date would have decreased the consolidated loss after income tax by $58,000 (2016: $85,000).

Interest rate risk
The Company and the Group are exposed to interest rate risk as entities in the Group hold cash and cash equivalents.

The effective interest rates on financial assets are as follows:

	Consolidated	
	2017 $'000	2016 $'000
Financial assets		
Cash and cash equivalents		
Australian dollar cash deposits	4,075	2,554
Australian dollar interest rate	1.94%	2.42%
US dollar cash deposits	631	2,497
US dollar interest rate	0.00%	0.01%

The Company and Group do not have any interest bearing financial liabilities. Trade and other receivables and payables do not bear interest and are not interest rate sensitive.

A 10% change in average market interest rates would have changed reported profit after tax by approximately $5,000 (2016:$19,000).

Credit risk
The Company and its subsidiaries incur credit risk from transactions with financial institutions. The total credit risk on an equity derivative (as described in note 9 above) and cash and cash equivalents, which have been recognised in the statement of financial position, is the carrying amount. The Company and its subsidiaries do not retain any collateral or security to support transactions with financial institutions. Cash and cash equivalents are held and transacted with

National Australia Bank, Western Union and Sonabank. The equity derivative counterparty is Lanstead Capital L.P. The estimated credit risk associated with the unsecured equity derivative has been considered in the estimation of the fair value of the equity derivative, as described in note 9.

Liquidity risk
The Company and Group's financial liabilities, comprising trade and other payables, are generally repayable within 1 – 2 months. The maturity and availability of financial assets, comprising cash and cash equivalents, receivables and monthly cash settlements from the equity derivative, are monitored and managed to ensure financial liabilities can be repaid when due.

Capital risk
The Company manages its capital to ensure that the Group entities are able to meet their estimated commitments as they fall due. In this regard, the Company raised additional equity capital during 2017, as described in note 12. Capital risk is impacted by the inherent uncertainties described in note 1.

Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as discussed below.

The Group's research and development activities are eligible under the Australian R&D tax incentive. The Group has assessed these activities and expenditure to determine which are likely to be eligible under the incentive scheme. For the period to 31 December 2017 the Group has recorded other income of $0.6 million (2016: $1.8 million).

The Group has assessed that all research and development expenditure to date does not meet the requirements for capitalisation as an intangible asset because it is not yet probable that the expected future economic benefits that are attributable to the asset will flow. The Group's current assessment is that future expenditure will not meet that requirement prior to the approval of a New Drug Application by the US Food and Drug Administration.

The fair value of the equity derivative described in note 9 is dependent on an estimate of the 20 day VWAP each month over 14 months. Differences in the actual VWAP compared to the estimate may cause a material difference in the fair value.

The Group is subject to income taxes in Australia. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination may be uncertain, including the taxation of the changes in fair value of the equity derivative described in notes 1 and 9. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Additional Information

Director	Interests in Ordinary Shares		Interests in Loan Funded Shares	
	Direct	Indirect	Direct	Indirect
Richard Treagus	480,770	89,517	-	2,000,000
Larry Glass	1,064,517	-	-	-
Bruce Hancox	-	-	-	-
Trevor Scott	1,000,000	2,989,784	-	-

Directors of subsidiary companies at 31 December 2017

	Richard Treagus	Larry Glass	Bruce Hancox	Trevor Scott	Jon Pilcher
AgVentures Limited				√	
NeuroendocrinZ Limited					√
Neuren Pharmaceuticals Inc.	√	√			
Neuren Pharmaceuticals (Australia) Pty Ltd		√	√		
Neuren Trustee Limited			√	√	

Australian Stock Exchange Disclosures

Neuren Pharmaceuticals Limited is incorporated in New Zealand under the Companies Act 1993.

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act, Australia, dealing with the acquisition of shares (such as substantial holdings and takeovers).

Limitations on the acquisition of shares are imposed by the following New Zealand legislation: Companies Act 1993, Securities Act 1978, Securities Amendment Act 1988, Takeovers Act 1993, Overseas Investment Act 1973, Commerce Act 1986 and various regulations and codes promulgated under such Acts.

Corporations Act, Australia - Directors' declaration

The Directors of Neuren Pharmaceuticals Limited ("Neuren") declare that:

1. The financial statements on pages 5 to 26 of Neuren and its subsidiaries for the year ended 31 December 2017 and the notes to those financial statements:
   (a) comply with the accounting standards issued by the Institute of Chartered Accountants of New Zealand; and
   (b) give a true and fair view of the financial position as at 31 December 2017 and of the performance for the year ended on that date of Neuren and its subsidiaries.
2. In the Directors' opinion there are reasonable grounds to believe that Neuren will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors dated 29 March 2018.

On behalf of the Board

Dr Richard Treagus
Chairman

Dr Trevor Scott
Director

Independent auditor's report

To the shareholders of Neuren Pharmaceuticals Limited

The financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Neuren Pharmaceuticals Limited (the Company) and its subsidiaries (the Group) present fairly, in all material respects, the financial position of the Group as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

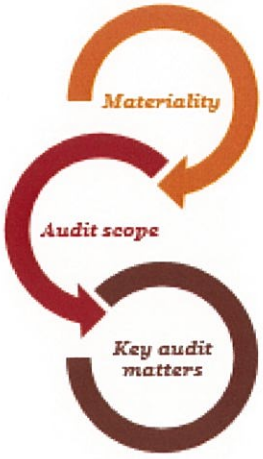
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out review procedures over the interim financial statements of the Group. The provision of this service has not impaired our independence as auditors of the Group.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $492,000, which approximately represents 5% of a three year average of net profit or loss before tax.

We chose a three year average as this addresses earnings volatility as net profit or loss before tax in our view, is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark.

We have determined that there are two key audit matters:

- Research and development costs
- Sharing Agreement entered into with Lanstead Capital LP

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Material uncertainty related to going concern

The directors monitor the Group's cash position and initiatives to ensure that adequate funding continues to be available for the Group to meet its business objectives. The Group recorded operating cash outflow of $5.6 million for the year ended 31 December 2017 and had net assets at 31 December 2017 of $16.4 million, including cash balances of $4.7 million and fair value of the outstanding cash settlements due from Lanstead Capital of $12.5m. The amounts of the settlements from Lanstead have a dependency on the Company's share price, as described in Note 9.

To enable the Group to complete the development of trofinetide, the Directors intend that the Group will enter a commercial partnering arrangement in 2018, the timing and terms of which are presently unknown. In addition, the Directors will consider securing other sources of funding, including additional capital, depending on circumstances at the time.

The ability of the Group to enter into a commercial partnering arrangement or secure other sources of funding, during the next 6 to 12 months, together with the dependency of the Lanstead settlements on

the share price, gives rise to the existence of material uncertainties that may cast significant doubt over the ability of the Group to continue to operate as a going concern, realise its assets and meet its obligations in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

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

In addition to the matters described in the material uncertainty related to going concern section, we have determined the matter below to be a key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Research and Development Costs As disclosed in Note 2(f) of the financial statements, the Group has incurred research and development expenses of $5.1 million for the year ended 31 December 2017. The majority of these expenses relate to the research and development of the drug trofinetide for Rett syndrome. We have focused on this expense because research and development represents a significant part of this business and judgement is required in determining the appropriate accounting treatment. The Directors use judgement to determine whether research and development costs should be expensed or whether they meet the criteria for capitalisation. This criteria includes assessing whether the product being developed is commercially feasible, whether the Group has adequate technical, financial and other required resources to complete the development and whether the costs will be fully recovered through future sale or licensing of the product. The Directors determined that the costs did not meet the criteria for capitalisation based on the fact that: • Commercialisation of the product is dependent on the success of further trials, studies and Food and Drug Administration approvals, the outcomes of which are unknown; and • The Group is dependent on obtaining sufficient funding and/or a commercial partnering arrangement to further develop the product and complete all required processes to meet the criteria of commercial feasibility	Our audit procedures over research and development costs included: • Gaining an understanding of the Rett syndrome project and product through discussion with management, Company releases to the market and independent websites; • Agreeing a sample of costs incurred in this period to supplier invoices and payroll records to verify the nature and amount of the expenditure and ensure classification as research expense was appropriate; • Gaining an understanding of the current stage of development to 31 December 2017 and FDA approval process the Group has in place to commercialise the product by examining information published by the FDA; and • Using this understanding, we evaluated management's assessment of whether the Rett syndrome costs met the criteria for capitalisation. The treatment of the Research and Development cost is consistent with our understanding of industry practice and we have no matters to report.

Key audit matter	How our audit addressed the key audit matter
Sharing Agreement entered into with Lanstead As disclosed in note 9 to the financial statements, the Company entered into a Sharing Agreement with Lanstead as part of a capital raising completed in July 2017. Under this arrangement, the Company receives 18 monthly settlements calculated with reference to both the volume weighted average price at which Neuren's shares are traded during the 20 days immediately prior to each settlement (VWAP) and a Rate of Return, which effectively results in a discount to the VWAP. The arrangement gives rise to a financial asset being a receivable with an embedded derivative. The embedded derivative represents the variability in payments to be received, linked to movements in Neuren's share price. Neuren has elected to measure the whole instrument at fair value through profit or loss. The instrument is hereafter referred to as the 'Receivable'. The fair value of the Receivable has been determined at both inception date and 31 December 2017, using valuation techniques to determine a price to sell the Receivable in an orderly transaction under current market conditions, taking into account assumptions that market participants would use when pricing the Receivable. This arrangement is both unusual and complex with the Receivable representing 66% of the total assets of the Company. At inception date the Receivable was recognized at a fair value of $5.4 million compared to a notional value of the related shares issued of $9 million (calculated by using the spot price of the shares on the issued date).	Our audit procedures in relation to the arrangement focused on understanding the arrangement, the accounting treatment applied and the valuation of the Receivable at both inception and balance date. We performed the following audit procedures: *Understanding of the arrangement* a. conducted meetings with management to understand the key terms of the arrangements; b. reviewed all key contracts to ensure that the key terms were consistent with our understanding; and c. agreed key terms relevant to the accounting for this transaction, with the Company's legal advisors. *Accounting treatment and valuation of the Receivable* d. We consulted with the following auditor's experts: • Accounting technical experts to consider the appropriateness of the accounting treatment adopted with reference to accounting standards; • valuation experts to consider the valuation approach and the appropriateness of key assumptions used in the valuation at inception and at 31 December 2017, based on their knowledge of similar transactions; and • taxation experts to challenge the tax treatment adopted. e. We also considered the appropriateness of disclosures in the financial statements in relation to the arrangement. Based on our work, the accounting treatment applied is consistent with our understanding of the key terms of the arrangement and the valuation results fell within an acceptable range based on our knowledge of similar transactions.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are 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 ISAs NZ and ISAs 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Tiniya du Plessis

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountant
29 March 2018

Auckland